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FEDERAL EMPLOYEES' OPTIONAL EARLY RETIREMENT ACT

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

S. 42

TO AMEND TITLE 5, UNITED STATES CODE, TO ESTABLISH AN OPTIONAL EARLY RETIREMENT PROGRAM FOR FEDERAL GOVERNMENT EMPLOYEES, AND FOR OTHER PURPOSES

APRIL 21, 1988

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FEDERAL EMPLOYEES' OPTIONAL EARLY RETIREMENT ACT

THURSDAY, APRIL 21, 1988

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 2:08 p.m., in room SD-342, Dirksen Senate Office Building, Hon. David Pryor presiding.

Present: Senators Glenn, Pryor, Roth, Stevens, and Heinz.

OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR [presiding]. We will come to order.

Today's hearing is on S. 42, the Federal Employees' Optional Early Retirement Act.

Senator John Glenn, the Chairman of this Committee, is tied up at this moment in an Armed Services Committee meeting. He has asked me to open today's hearings on Senator Roth's bill, S. 42, to provide for early retirement for Federal employees.

I must tell you that I can certainly understand, after a decade of bureaucrat bashing, both verbal and economic, why a lot of Federal employees throughout our system might like an opportunity to get out early.

But I think we have got to look at other than the salving effect of early retirement. We need to examine whether there is potential for savings that might inure to the benefit of the Government's deficit reduction efforts; whether these savings can be achieved with the early-out authority in existing law, whether that law needs to be changed, and what impact an across-the-board early-out might have on agencies' operations.

Needless to say, the father of S. 42 is Senator Bill Roth of Delaware, our good friend and a member of this Committee. At this time, I call on Senator Roth.

OPENING STATEMENT OF SENATOR ROTH

Senator ROTH. Well, thank you, Mr. Chairman.

I appreciate your opening this meeting. I know that Senator Glenn does have a mark-up in Armed Services, so it is very thoughtful of you to be here today.

Since the last hearing, I have made some very significant changes in the legislation, incorporating many of the suggestions that were made during that hearing. I am hopeful that this hearing will provide an opportunity to review the changes, perhaps come up with some additional improvements, but particularly to move us a step closer to full Committee consideration of this bill.

I know some have suggested that this may be the last anyone will see of the early-out plan. Well, I want to assure you today that that is not the case.

Dave, you may recall some years ago, I introduced a tax reduction bill with Jack Kemp, and people were consistently predicting its early demise; that did not happen, and I do not expect it to happen with this legislation.

I hope we succeed this year, but if we do not, I intend to continue next session, because I think this does offer an approach of critical importance both to the employees and to the Government.

Mr. Chairman, you made a reference that you could understand why our Federal employees are unhappy with some of their treatment. One of my concerns is that too often they are treated with disdain. I just want the record publicly to show that I think the vast majority of Federal employees are able, dedicated, hardworking employees.

But I want to go back and say that I think this legislation will continue to be given serious consideration for two reasons. I believe the Federal Government is going to have to one of these days face up to the new technologies, to do something about increased productivity, and these revolutionary changes are going to bring about a changing work force.

I think this type of legislation, early-out, will help to bring about the changes that will become necessary in a humane and compassionate manner.

And secondly, I also think this legislation will be given serious consideration in the coming years when we begin again to take some serious swipes or efforts to reduce the deficit. The early-out does offer a means of making some real budget savings.

Many may not be aware of the fact, but acceptance of the early retirement bill was considered last year during the reconciliation conference as the House and Senate conferees on the budget debated ways to find savings of $1.7 billion in the civil service. I listened as both House and Senate Members rallied around my early-out bill. It did not have the support of all, but many did encourage its passage.

So I expect that as we look forward to some of these efforts to reduce the deficit in the future, that that will happen again.

I might say one of the problems was how the provisions would be scored as part of the budget reconciliation process. I for one am very unhappy with the scoring process; I do not think anybody understands it, and I think it is sometimes used for the ends to justify the means.

But as I have already stated, as we move into the nineties and the age of improved technology and better communications, we are going to need a highly trained work force, and this bill will help us to make that transition.

We must take advantage of advance technology to improve productivity within the Government. The Federal work force of the future will undoubtedly require greater skills to work with computers, communication equipment and new technology, and we must look forward to the possibility of a smaller, more highly-skilled work force to meet the missions of our agencies and the needs of the American people.

But by improving productivity, we will be in a better position to provide better compensation for our work force. This bill will help make that transition a less disruptive, more compassionate one.

Mr. Chairman, I have an extended statement on the bill and its support. I would like to point out that we have received something like 8,000 different letters from Federal employees in support of this bill; that includes young, it includes older employees, it includes men and it includes women—but they all think it is an idea whose time has come.

I might just read a couple of statements—and Mr. Chairman, I will not ask that these be reprinted, in the interest of saving money, but I would ask that a few of the letters be incorporated as part of the record.[1]

Senator **Pryor**. Without objection.

Senator **Roth**. Let me just read one letter, Mr. Chairman.

> Dear Senator Roth: I fully endorse the early-out bill that you have sponsored. I am 52 years of age and have 32 years of U.S. Government service. I am a GS-9 Executive Secretary. I perform diligently, including voluntary overtime as a matter of personal work ethic but there are no advancement possibilities for me. I have been in grade for 20 years. Grade 9 is the maximum for a career secretary in my department.
>
> I can only look forward to the day when I will be eligible to retire and the beginning of a second career. There are thousands of people in my position. A significant percentage of these jobs can be eliminated without harm to overall effectiveness. Vacated positions that are not eliminated could be filled with younger people. Many positions could be downgraded. In any event, the present or regraded position would be filled at the entry level. New incumbents would then at least have an incentive in terms of within-grade increases, if not promotions.
>
> The focus of your bill is our incredible budget deficit. Historically, reduction in the U.S. payroll has been achieved via formal or informal RIFs. This has always resulted in work and morale upheavals and hits the weakest the hardest—young people, women, minorities with little service. Your bill would reverse the process and remove from the payroll those who are the least impacted—people closer to retirement, people who have been involuntary time-servers, who have floated to the top of their grades, who frequently find themselves baggage, placed into make-work jobs.

I would like to place the entire letter in the record.[2]

Mr. Chairman, I thank you for the courtesy of the opening statement.

[Senator Roth's prepared statement follows:]

PREPARED STATEMENT BY SENATOR ROTH

Mr. Chairman, I would like to thank you for calling today's hearing to examine the early retirement bill. Since the last hearing, I have made significant changes in the legislation incorporating many of the suggestions made during that hearing. I am hopeful that this hearing will provide an opportunity to review these changes and move us a step closer to full committee consideration of this bill.

Some have suggested that this hearing may be the last anyone will see of the early-out plan. I can assure you that today is the beginning of the process, not the end. I introduced the idea of personal tax rate reductions more than five years before it gained widespread support. It took hard work and persistence, but it paid off. And I will not give up this battle. If the legislation does not succeed this session, I will welcome the new year, the new administration, and a new environment for which to consider this bill.

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[1] See p. 163.

[2] See p. 163.

Many may not be aware of this fact, but acceptance of the early retirement bill was considered last year during the reconciliation conference. As House and Senate conferees on the budget debated ways to find savings of $1.7 billion in the Civil Service, I listened as both House and Senate Members rallied around my early out bill. It did not have the support of all the Members, but many did encourage its passage. I look forward to today's testimony, and working with the chairman to gain consideration of the legislation.

One of the reasons early out was not accepted last fall was concern over how its provisions would be scored or counted in the reconciliation process. I must say, as an aside, I am very unhappy with this scoring process. It is superficial and it is not applied consistently.

As we move into the 1990s and the age of improved technology and better communications, we are going to need a highly trained workforce. This bill will help us make that transition. We must take advantage of advanced technology to improve productivity within the Government. The Federal workforce of the future will require greater skill to work with computers, communication equipment, and new technology. We must look toward the possibility of a smaller, more highly skilled workforce to meet the missions of our agencies and the needs of the American people. By improving productivity, we will be in a better position to provide better compensation for our workforce. This bill could help make that transition a less disruptive, more compassionate one.

On January 6, 1987, the first day of the new Congress, Senator Stevens and I introduced the Federal Employees' Optional Early Retirement Act. Since that time we have been joined by Senators Symms and Nickles, and more than 8,000 Federal employees, including individuals from every State in the Union, expressing support. Later, I will read from just a few of the several thousand letters I received.

The early retirement is an idea whose time has come. Utah, Alaska, and recently West Virginia initiated early retirement plans for their State employees. I am particularly looking forward to testimony today from Dale Hatch, the director of the office of planning and management for the State of Utah, to get an idea of the experience his State has had with an early retirement plan. The Federal Government has offered more than 60,000 Federal employees the opportunity to retire early under current law. It will be interesting to draw upon that experience also. And finally, many corporations, including some of the largest in our country—General Motors, IBM, CBS, and Dupont, have recently instituted early retirement programs.

In fact, the catalyst for the early retirement legislation is the example set by many private companies that have offered such plans in order to prevent layoffs, provide promotion opportunities and job security for younger workers, and to cut costs in times of financial problems.

Senator Stevens and I first introduced an early retirement bill during the 99th Congress. Our original bill was a starting point for discussion and recommendations. On May 15, 1986 this committee held a hearing on the legislation. Since that time, we have worked hard to meet the concerns expressed about the bill. The current version attempts to meet those concerns, and I feel, succeeds in its efforts.

Under our proposal some 350,000 employees would be newly eligible to retire, based on the same age and service rules that apply to involuntary retirement under current law in layoff situations, age 50 with 20 years of service or any age with 25 years of service. Another 100,000 would be eligible to retire under an expansion of the rules to include those age 55 with 15 years of service, or age 57 with five years of service. This opens the window to those who are now within five years of eligibility for full retirement benefits. The retirement window will open for 90 days following a 60 day period after the legislation is passed.

The proposal necessarily includes controls on replacement of those who retire, by reducing agency manpower ceilings. This method steers a middle course between imposing a total ban on hiring replacements, which could impair the Government's ability to carry out programs, and giving agencies free rein despite the need to act regarding the federal deficit. We do not wish to micomanage the Government agencies, so the bill gives the executive branch the authority to decide on the hiring of replacements.

The proposal has many advantages. First, it responds to the problem of the Federal deficit and the potentially devastating effects of layoffs or reductions-in-force under a Gramm-Rudman sequestration order. I can not emphasize this point too strongly. With the current Federal deficit crisis, the ability of the Government to offer early retirement to its workforce is a rational, voluntary, and humane method for reducing cost without harming the morale and efficiency of the Government. Unlike the re-active mechanism in current law for early retirements, this is an active plan to reduce the deficit.

Second, this proposal makes a voluntary offer of retirement that is far preferable to layoffs or reductions in force. It offers new opportunities to younger Federal employees—especially women and members of minority groups—who may be concerned about the shortage of career opportunites in the Federal Government. By providing older workers with the opportunity to retire, younger employees may now look forward to brighter and more secure Federal careers. I am very interested in the testimony of Mr. John Sullivan, a Federal employee for the Department of Defense on this very matter.

Third, this proposal takes advantage of a gap in Federal employee retirement rules to make eligible about 100,000 employees who lack the age and service needed under the early out requirements in current law, and who are within five yers of current retirement. It provides these individuals with a degree of freedom they have never had before, to start a second career or coordinate their retirement plans with their spouse.

Fourth, this proposal could save the taxpayers huge sums of money. The figures I have received from the Congressional Budget indicate that this bill could save more than three billion dollars over a five year period.

There has been a great deal of concern expressed that this bill would hurt the Government's ability to "do its work"—that we would lose the most skilled, experienced, and productive members of our workforce and that the hiring freeze would damage the ability of the Government to fulfill its mission. The changes made to the original bill take these concerns into consideration and, I feel, address them positively.

It is critical for the Government to retain certain occupations and efficiently continue projects that are critical to the missions of the agencies. In response to this concern, the President, or his designee, has the authority to exempt up to 25 percent of the agencies eligible early retirees, by occupational category, project, or geographic location. Although every employee should be given the opportunity to retire early, certain activities are of extreme importance to on-going Government functions.

To ensure a smooth transition of responsibilities, the legislation allows managers to hold over an employee who has elected early out, for up to six months, if the manager deems that the individual's skills are crucial to the job responsibilities or a work project. In addition, some positions will need to be refilled in order to permit the efficient working of the Federal Government. Therefore, the legislation permits the President to waive the freeze for positions that are determined to be vital to the performance of the agency's mission, or to allow rehiring where the costs of the program are borne by user fees.

The original legislation contained a five year freeze limitation on the Government's ability to rehire. We have lowered this to a three year freeze. This method steers a middle course. While this optional early retirement window is brand-new for the Government, it follows a trail blazed over the past five years by many of America's leading employers. In times of financial stress, this bill provides an efficient, yet compassionate way of reducing costs.

This legislation has a great deal to offer, both to Federal employees and to the Government. I look forward to the testimony today, and again, Mr. Chairman, I would like to thank you for continuing the process to consider and advance this legislation.

Senator **Pryor**. Senator Roth, thank you.

I wanted to mention that Senator Sasser of Tennessee, a member of this Committee, is tied up at this moment in a budget conference. Senator Sasser has a statement which will be placed at this point in the record. He also may have questions to submit for the witnesses, and we will leave the record open a number of days for that purpose.

Following Senator Sasser's statement we have one from Senator Heinz who could not attend today's hearing.

[The statements referred to follow:]

Opening Statement of Senator Sasser

Mr. Chairman, I welcome the opportunity for this Committee to receive testimony on S. 42, the Federal Employees' Optional Early Retirement Act. This "early-out" proposal deserves considerable scrutiny, both because of the promise it offers for realistic but humane cuts in the Federal payroll, and because of some valid outstanding questions about its potential impact on the remaining Federal bureaucracy.

The proponents of S. 42 believe it will promote efficiency, by making it more feasible for senior employees to retire just as new opportunities and job skills are poised to transform the Federal workplace. The bill offers an attractive option for reducing the Federal work force in a time of fiscal austerity. Yet it would do so by honoring the voluntary wishes of the employee rather than the involuntary and harsh dictates of reductions-in-force.

At the same time, we must be sure that any measure we pass will not, inadvertently, generate a crisis in Federal management or deprive the government of its best workers. I note that S. 42 seeks to address this potential problem by retaining some discretion in the Executive over critical staffing areas. I am also interested in knowing how the hiring freeze provisions in this bill will affect future personnel requirements. We look forward to learning whether legislation along these lines can balance an equitable and generally available retirement option with adequate safeguards for the preservation and renewal of vital government positions.

I commend my distinguished colleague, Senator Roth, for introducing this bill and Chairman Glenn for holding this timely hearing. I look forward to exploring the matters raised by the bill in the course of this hearing.

OPENING STATEMENT OF SENATOR HEINZ

Mr. Chairman, I want to commend my friend, Senator Roth, for his concern and advocacy on behalf of the Federal workforce. The legislation he has brought forward, S. 42, has received support from many of his neighbors in Pennsylvania. Senator Roth's intent is laudable—he wants to expand the retirement options available to Federal workers.

Early retirement has already proven to be a popular benefit. S. 42 would expand its availability in several ways. The legislation authorizes an early retirement program for 90 days, affecting the great majority of the Federal workforce. In order to obtain early retirement a worker would be required to have at least 25 years' Federal service; or be at least 50 years' old with 20 years' service; or 55 with 15 years' service; or 57 with at least 5 years' service. Employees retiring before age 55 would lose 2 percent from the basic annuity for every year an employee is under age 55.

Law enforcement officers, firefighters, air traffic controllers, bankruptcy judges, and military appeals judges will not be covered, and the President would have authority to exempt additional workers up to 25 percent of an agency's workforce.

The cost of legislation would be at least partially, if not fully, offset through what is essentially a three-year hiring freeze. Agencies would be unable to replace employees who retire, either early or otherwise, for three years.

As the Office of Personnel Management will testify, there is an existing early retirement program. I am certainly sympathetic to the desires of some in the Federal workforce to take early retirement, and agree with Ken Blaylock, Robert Tobias, and David Gusky that more could be done in this area.

However, I have a number of questions regarding S. 42, and these cause me to approach the legislation with some concern. The 2 percent reduction in basic annuity is one of my concerns. Will workers who retire before age 55, and lose a significant portion of the annuity, have sufficient income for a lengthy retirement? Will they avoid impoverishment in their later years?

Conversely, does the reduction mean that only those workers at the highest skill level can afford the benefits of the legislation? If so, would we encourage the so-called "brain drain" which afflicts the Federal workforce through early retirement of the most skilled workers?

Finally, I am concerned that the three-year freeze in hiring would effectively cripple any agency where significant numbers of workers retired early. The freeze, if coupled with the retirement of high-skilled, experienced workers, could, as some of the witnesses will testify, prove devastating.

Mr. Chairman, it is my hope that today's hearing will address my concerns. I would very much like to work with my friend from Delaware to improve retirement options for Federal workers. But I need answers to these questions.

Thank you, Mr. Chairman.

Senator PRYOR. Our first panel this afternoon is Mr. Curtis Smith and Ms. Rosslyn Kleeman. Would you please come to the witness table?

Senator **Roth**. Mr. Chairman, may I ask at this time that two statements in support of this legislation be included as part of the record—one by the National League of Postmasters of the United States,[1] and the second is from the Professional Managers Association.[2]

Senator **Pryor**. Without objection, the two letters will be placed at the appropriate point in the record.

Mr. Curtis Smith is the Associate Director for Career Entry, Office of Personnel Management, and Rosslyn Kleeman is the Senior Associate Director of the General Accounting Office. We are pleased to have both of you here today.

Mr. Smith, I will call on you first. I do not know that we are going to adopt a time rule, but I would urge you to summarize your statement and submit the text of your statement for the record.

Thank you. Mr. Smith.

TESTIMONY OF CURTIS J. SMITH, ASSOCIATE DIRECTOR FOR CAREER ENTRY, OFFICE OF PERSONNEL MANAGEMENT

Mr. **Smith**. Thank you, Mr. Chairman.

I will submit my statement for the record[3] and give you just a brief summary at this point.

Senator **Pryor**. Thank you.

Mr. **Smith**. We endorse the goal of S. 42, the goal of reducing the Federal work force through humane means rather than through using reduction-in-force; and we commend Senator Roth for his interest in a smaller Government and for achieving that smaller Government at the least cost to employees.

It may help you to understand our concerns if we look at what is done in the private sector. I think that is helpful, because what we are really faced with here, from our perspective, is a business problem. When a private company wishes to reduce its work force by means of early retirement, it does so by selecting precisely those individuals it wishes to do without. That has not been possible in the public service because of proper Congressional concern that such an approach would lend itself to favoritism and to political abuse.

Instead, we have an early-out authority under current law which allows us to identify the particular part of Government where the reduction is taking place and then to let individuals within that piece of Government choose whether or not to retire.

S. 42 goes the other way and in essence makes early retirement an entitlement. Managers lose all control over where the retirements occur and can end up short in important functions and end up with still too much staff where it was they wished to reduce. Even in tight times, some agencies need to grow. In the current deficit situation, we see now the need for Treasury and for the Justice Department to grow. Even when a particular agency is shrinking, some parts of it will need to increase to handle the work that the Nation has asked them to do.

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[1] See p. 151.

[2] See p. 161.

[3] See p. 60.

So a blanket approach does not give us what we need. However, where we have huge cuts, as we have presently in the Department of Defense, OPM's current authority allows us to address the problem with the kind of precision that allows us to permit the retirements where we most need them.

In sum, we believe that the current early-out authority is fully adequate to deal with the work force reductions that we face.

Thank you, and I will be happy to answer questions.

Senator **Pryor**. Thank you, Mr. Smith.

Ms. Kleeman?

TESTIMONY OF ROSSLYN KLEEMAN, SENIOR ASSOCIATE DIRECTOR, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY TOM EICKMEYER, GAO STAFF

Ms. **Kleeman**. I would like to introduce Tom Eickmeyer, who is with me. Mr. Eickmeyer has done most of the GAO work in this area, so I asked him to come along.

Senator **Pryor**. Welcome, Mr. Eickmeyer.

Ms. **Kleeman**. And I would like to submit my full statement for the record [1] and will summarize briefly.

Senator **Pryor**. We appreciate that. Thank you.

Ms. **Kleeman**. Under S. 42, about 430,000 employees would be eligible for early retirement in addition to the 175,000 Federal employees who are eligible for regular retirement. Thus, nearly 600,000 employees, or about 20 percent of the work force, could elect immediate retirement if the bill were enacted.

Obviously, if all eligible employees elected to retire during the 90-day window allowed for in S. 42, the effect on the administration of Government programs could be devastating.

Normally, about one-third of all employees eligible for regular retirement do retire each year. And the Congressional Budget Office estimates that about 42,000, or 10 percent of the eligible employees, would elect early retirement.

About 16,000 other employees would also be expected to retire under the regular provisions during the 90-day period. As a result of these early retirements, Government outlays for payments of retirement benefits and unused annual leave will increase. In addition, retiring employees will no longer be making contributions toward their retirement and toward their basic life insurance benefits. Offsetting these items, of course, will be payroll savings for a reduced work force.

In October 1987, the Budget Office estimated potential savings of about $3 billion over the next four years if retiring employees are not replaced. So to the extent that employees retire early and are not replaced, the bill would result in the eventual reduction of Federal expenditures. And if the work force is reduced through early retirement rather than through reductions in force, it would also save jobs for recently hired employees, many of whom are women and minorities with little seniority.

Also, promotion opportunities would be increased for younger employees. However, we believe work force reductions should generally be based on program cutbacks or elimination as is the case under current law. By not considering the effect on program performance and efficiency, arbitrary reductions such as this bill would produce may be counterproductive.

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[1] See p. 66.

S. 42 authorizes the President to exempt up to 25 percent of the otherwise eligible employees to preclude the early retirement of employees who occupy essential positions. We believe this is an important improvement over the previous proposal the Committee considered, which had no restrictions on who would be allowed to retire early.

Similarly, this bill would exempt the Postal Service from the hiring limitation in order to avoid disruptions in mail service, and it would also authorize the President to waive the hiring limitations in certain other circumstances as well.

With these restrictions that I have just mentioned, we believe the bill could provide an effective approach to reducing the size of the Federal work force in those agencies where program cuts are being made. Should this be the case, Congress might wish to consider coupling this expanded early retirement authority with reductions in agency programs during the budget reconciliation process. And regardless of whether any action is taken on this bill, in order to better manage any further work force reductions, Congress may want to broaden the Office of Personnel Management's existing authority by making permanent the provisions for expanded eligibility and the restrictions on who may leave.

I believe that summarizes my statement, and I will be glad to answer any questions.

Senator PRYOR. Thank you very much, Ms. Kleeman.

First, I want to note the arrival of Senator Ted Stevens of Alaska. Senator Stevens has just informed me that he has no opening statement to make at this time, and, of course, he may participate in the questioning.

I have a couple of questions for Mr. Smith. It is my understanding from reading S. 42 that this legislation is designed to save the Government money. In fact, I do not know of anything that Senator Roth has ever been involved with that is not designed to save the Government money; let me give him that pat on the back.

However, your testimony, Mr. Smith, indicates that you have doubts on this score. Do you see the potential for an increased number of private contractors to take up the slack when Federal employees leave the rolls?

Mr. SMITH. Yes, sir. The bill is structured in terms of people retiring and then those people not being replaced. It does not of itself, however, take that money out of Federal budgets. Managers will then use that money in other ways, I would expect, in order to get the same work done.

Senator PRYOR. Well, in a minute, I'd like to ask you what freedom they have to utilize that extra money. Excuse me. Please proceed.

Mr. SMITH. I think that would basically be my response, that the bill does not take the money out of Federal budgets; it simply prohibits you from using that money to pay employees. So there would still be other ways to spend the money.

Senator **Pryor**. But you do believe that if S. 42 became law, there would be a decrease in the actual number of employees. Would that be correct?

Mr. **Smith**. Yes, but how long that decrease would last is problematic. Our experience with hiring freezes in the past has been a very difficult one. The pressures, when the program responsibility remains, to replace those people, are severe. We would expect a freeze to disintegrate fairly shortly, with the granting of the number of exceptions, for example.

So I don't know that we would have a long-term reduction in the number of employees without a consequent reduction in the programs that the Government provides.

Senator **Pryor**. So the Government doesn't take the money back and put it in the Federal Treasury; we keep the money out there in the agency, and they will have more flexibility to spend that money as they desire, even though they are not hiring new people; is that correct?

Mr. **Smith**. That's what I would expect, yes.

Senator **Pryor**. And S. 42 does not have any safeguards against them keeping that money?

Mr. **Smith**. That's correct.

Senator **Pryor**. Under Senator Roth's bill OPM would have the authority to waive hiring restrictions for essential employees and those whose services are financed through user fees.

Do you know of any criteria that are being looked at so these waivers would be granted fairly across the agencies?

Mr. **Smith**. No, sir, I don't believe we have developed specific criteria at this point. Under the bill, it is the President who would have the authority to grant the exceptions rather than OPM. To whom he would delegate that, I do not know, and we have not laid out criteria. We would certainly do so in the event the legislation became law.

Senator **Pryor**. So your bottom line is we might have a reduced work force, but whether we would save any actual money is to be determined and is somewhat questionable?

Mr. **Smith**. Yes, and also that we may have the work force reduced in the wrong places.

Senator **Pryor**. Thank you.

Senator Roth?

Senator **Roth**. Well, on that specific question, as I recall, my distinguished Chairman has been very involved in trying to reduce the number of outside consultants.

Senator **Pryor**. Not very successfully—and by the way, we are going to have hearings this summer on the Government's use of consultants. It appears that even more of our dollars are going for outside private advice for the Federal Government.

Excuse me, Senator Roth.

Senator **Roth**. Well, I would just make the general observation that there are always reasons not to do something, and too often that is true in Government.

But on the specific point that there would be no actual savings because the agency would be free to use it, we did include language—and if this language is not adequate, we will be happy to amend it—but we do specifically provide that none of the budget authority and outlays saved in any fiscal year by reason of the reduced pay and other personnel costs resulting from the implementation of the Act and the amendments made by this Act may be obligated or expended for any purpose.

Are you familiar with that language?

Mr. **Smith**. I stand corrected.

Senator **Roth**. So you raise a valid point and one that concerns me, that during the reconciliation discussions, the question of whether or not it could be scored came up. But certainly, language can be written, and Congress can enact what is necessary to ensure any such savings will not be spent elsewhere, isn't that correct, that Congress has a will.

Mr. **Smith**. I am sure that is the case.

Senator **Roth**. Now, Ms. Kleeman, thank you for your testimony. I think it would help us all understand a little bit—let us assume that we have a hypothetical agency of 100,000 employees and that 15,000 of those employees would be eligible for early retirement. Now, it is my understanding from what you say that the estimate—and that is what it is is an estimate—that something like 10 percent of those early retirement eligibles would elect to opt out; is that correct?

Ms. **Kleeman**. Yes, but that is an estimate. It is very hard to judge how many people would actually choose this, using this authority.

Senator **Roth**. But that is believed to be the——

Ms. **Kleeman**. Based on past experience, yes.

Senator **Roth**. And so our legislation provides that the President can provide that 25 percent of those eligible may not retire if that is in the interest of Government service.

Ms. **Kleeman**. Right.

Senator **Roth**. The point I am trying to make is that there are pretty strong controls included in this legislation. Maybe they can be improved upon, and if that is the case, I would be happy to give some consideration to that. But when you stop and consider that only 10 percent of those eligible are likely to opt out, and the Government or the President has the right to prevent 25 percent of that same number, that does give pretty strong control to the Administration.

Ms. **Kleeman**. I think the 25 percent provision is a very important one, and we would even like to see that included in OPM's current authority so that a manager could target the positions better and be able to retain essential employees under any early-out authority. I think that is an excellent provision.

Senator **Roth**. Let me go back to Mr. Smith a minute and one statement that does not jibe at least with my understanding of the practice in the private sector. It may be—and let me be very up front that the idea for this legislation came from watching what the private sector did—but there were differing plans with different organizations. Now, some may have pretty much designated. Other companies—I won't name them, because I don't think it is appropriate—but other companies gave the option to the employees themselves so that there is a precedent in the private sector for what we propose to accomplish here.

I think one of the principal reasons our private companies did it was as part of their effort to improve productivity. They found that as a result of technological breakthroughs, computers, new communications, that the work force that they had in the past was not necessary for the future and that if they were going to be competitive in this new global economy, that this made it necessary to reduce the size of their work force, and some decided to try to do it in a manner that would be compassionate and humane as far as the individuals impacted.

Let me ask this question of both of you. What efforts are being made currently, both in practice and in study, to improve productivity? What does the new technologies, the new computers, the new means of communication mean in the way of changing personnel requirements?

Mr. Smith?

Mr. SMITH. The Administration is trying to address that problem in an organized fashion through the Office of Management and Budget with a productivity group, an attempt to get agencies to look at and to exploit the potentials for productivity increases. Clearly, we are moving in that direction. In something close to home, OPM has taken fairly significant reductions over the last seven or eight years, in large part because of productivity increases, in the way that we test people.

Senator ROTH. Let me ask you this. Are there any goals as to how much productivity can be increased annually or over time?

Mr. SMITH. I believe goals have been set, and I don't recall what they are. I will be happy to submit that for the record.

Senator ROTH. You have no idea what that is?

Mr. SMITH. No, I do not.

Senator ROTH. Ms. Kleeman?

Ms. KLEEMAN. I think that the productivity improvement programs are a responsibility of both OPM and OMB. I have not seen any exact results from them, but I do know they are trying some things out in demonstration projects—but in addition to that, I believe OPM is doing a study of the future work force and the demographic changes and the needs that there will be. I do not know what the timetable is. Perhaps Mr. Smith has that.

Mr. SMITH. Yes. We are expecting in June to complete a report for the Senate Appropriations Committee on what the civil service will look like in the year 2000 and what its needs will be, parallelling the work done already by the Department of Labor. That, however, is primarily focused on the kinds of people who will be available to work in the civil service and the sorts of things we may need to change about the way we do business in terms of recruiting and retaining good folks. I don't think we will get much help on the productivity front from that report.

Ms. KLEEMAN. I do think one of my concerns is that under this bill, the people who would be eligible to retire early would be in any or all agencies, and the demographic changes don't take place in all the agencies; they take place in certain agencies, so that the current authority OPM has to allow early-out or to make changes in the work force are available right now, and I think with the addition of some of the pieces of your bill, their early-out authority would take care of the kinds of things you are talking about.

Senator **Roth**. Let me go back to your statement, Mr. Smith. Do I understand that this study is being based on what personnel they think would be available and trying to adjust the system to that, and no consideration is being given as to how modern technologies can improve Government productivity if we can get the appropriate personnel?

Mr. **Smith**. There will be consideration for how technology and other things will alter our work and alter how the Government provides its services. There isn't anything particularly labelled as a productivity focus in the work I have seen so far.

Senator **Roth**. To me, that is unbelievable, to be blunt about it. I think one of the most important revolutionary things that is happening today is the information revolution. You talk to any leading executive of any private organization, and they are having to entirely change their ways of doing business and the kind of personnel they need.

One of my concerns it that we get the kind of people we want in Government and that we compensate them appropriately. But what you are saying to me is that we are sort of taking a passive attitude, that we aren't going to necessarily get the best people in Government, and that we are going to have to take what is available.

I will be honest with you. I can tell you a lot of young people out of college, out of high school, look upon Government as a first priority, even though pay is not as high as in the private sector.

So I would like to urge and even insist that we give some thought to productivity; how can we utilize this modern technology to make Government provide better services. Now, that may take more skilled people; I suspect it will, and that is a question I would like to ask both of you. But if we are able to get along with a smaller work force, we can begin to pay better.

What I want to know is what we need to do a good job. I am not asking for more for less. But it seems very ironical to me that in Government, in contrast to the private sector, we do not see the new technologies providing a tremendous opportunity to improve on productivity and to provide better jobs for the Government employees.

Mr. **Smith**. I certainly agree and did not want to suggest at all that we are not concerned about getting the very best people. That is what is driving our interest in the demographics and the nature of our work.

Senator **Roth**. But you are not talking about productivity, you told me.

Mr. **Smith**. Clearly, we will have higher demands for skills in our jobs; we will need to be able to compete more effectively for good employees. I also appreciate your point about productivity. A lot is going on that I am simply not familiar with in detail and will be happy to provide that to you.

Senator **Roth**. Ms. Kleeman?

Ms. **Kleeman**. I believe the Congressional Budget Office has recently done a study of productivity in both the Federal work force and the private sector. Their findings were quite favorable, I believe, on the public productivity, and I do think they are looking at these issues.

We are also going to be doing some further work for Senator Pryor on early-out, and if we do this as a case study, as I plan to suggest, we may be able to include looking at productivity improvements in the changing work force as we do that study.

Senator ROTH. Well, Mr. Chairman, I have some more questions, but I am sure that Senator Stevens has some.

Senator PRYOR. Senator Stevens, do you have questions for either of the witnesses?

Senator STEVENS. Let me be brief. I cosponsored this bill because I still think there is a role here for some type of encouragement for people to step out, to open the ranks of the Federal Government to the younger generation—the newcomers—who want to come into Government.

We have a declining work force ahead of us. I assume that you both agree with that.

Ms. KLEEMAN. Yes.

Mr. SMITH. Yes.

Senator STEVENS. Have you any suggestion as to how this bill might work to help meet the goals of operating our Government in the most efficient and effective way so that some of these people who want to get out can leave—or do you disagree with me? My assumption is there is a group of people there who would like to get out, but they feel locked in at just about mid-career level; they are unhappy but they cannot really afford to make a change. I believe this bill is giving them an opportunity to make the decision, to leave, to receive better employment, and allowing a greater influx of newer people with different skills to come into the Government in this period of declining employment.

Would you comment on that?

Mr. EICKMEYER. If I could suggest a solution there, one of the factors in determining the benefits of the early retirees is a 2 percent reduction for each year under 55. That is to help offset the extra cost of early retirement.

If you required an actuarial reduction for those who leave under 55, as far as the retirement fund is concerned, it would be neutral. So one way you could let people leave at earlier ages is to provide an actuarial reduction. And with that, the fund would be whole either way, whether the person continued to regular retirement age or left earlier.

Senator STEVENS. Do you agree with my feeling that there is a serious problem for those people who feel locked in and cannot get out?

Mr. EICKMEYER. I do not know how serious it is. I know there are a large number, as indicated by the 8,000 letters that Senator Roth received.

Ms. KLEEMAN. Unfortunately, the ones we hear from who want to leave are the people for whom we have a very critical need, and they are the very hard-to-fill positions. My concern would be that if we just open up an early-out, we would lose the very people we need most, not necessarily the ones that you are talking about who have been around quite a while.

Mr. SMITH. My concern, I think, continues to be with the issue generally, that we lose control over where this takes place. Clearly, in some places in the Government, as we have seen this year, we need to let people go for the kinds of reasons you give; but we have been able to keep control over it so that it does not happen where we do not want it.

I would second Ms. Kleeman's point that there is a real tendency for people with highly marketable skills to leave us under early-out and to begin second, lucrative careers elsewhere, and those are always in the occupations where competition is most intense.

Senator **Stevens**. Yes. We found that when we explored the problem of portability with our retirement system. That is a great disincentive, I think, to solving some of these problems; the question of how do you retain the people you want when they are the people who are discontented and that you don't want to leave.

There is a question of fairness involved, too, isn't there?

Ms. **Kleeman**. That is right.

Senator **Stevens**. Currently, you have discretion for some early-out cases, right?

Mr. **Smith**. Organizational discretion, not individual.

Ms. **Kleeman**. Not individual. That is why the provision in the Roth bill, in S. 42, that does allow an agency head to target certain positions, I think, would be a very valuable addition to the OPM current authority.

Senator **Stevens**. Thank you very much.

I am looking forward to the study that you say you are doing for the Chairman.

Ms. **Kleeman**. We have not started it yet.

Senator **Pryor**. If I am not mistaken, I think the study looks primarily at law enforcement officials and firefighters.

Ms. **Kleeman**. We are doing those, but there is still another one on early-out.

Senator **Pryor**. It might need to be expanded a little bit.

Ms. **Kleeman**. We have several of them that are ongoing.

Senator **Pryor**. Senator Roth, in his opening statement, read a letter. The letter indicated that they wanted to begin a second career, and I think this person was 52. Would this person be drawing a full annuity if they could get out, say, at the end of this year? Would they draw a full annuity, or what would be the reduction in the annuity?

Mr. **Smith**. The reduction would be 2 percent for each year under 55.

Senator **Pryor**. So that would be 2 percent for every year under age 55.

Mr. **Smith**. Yes.

Senator **Pryor**. What would happen to this same lady if she got no annuity and wanted to start a second career? There would be no incentive. She wants to use the annuity, I guess, as a base and then another job probably would be a secondary financial source of income for her. Is this correct?

Ms. **Kleeman**. Right.

Senator **Pryor**. So 2 percent is the rule for each year under 55. Is that actuarially sound?

Mr. **Eichmeyer**. No. The 2 percent would not be. It would be more between 6 and 8 percent reduction would be actuarially sound.

Senator **Pryor**. Senator Roth?

Senator ROTH. Just a few more questions. First, I am going to ask staff what studies have been undertaken, because it does give me cause for concern, Mr. Chairman. I am not certain from what I hear that the Government and the Executive Branch in particular is taking a hard look at what needs to be done to improve productivity, especially in light of the technological revolution we are going through, and how this changes our requirements of personnel, both as to numbers and types.

It seems to me that it is critically important for anything as large as this Government to begin planning now. One of my concerns, to be candid, long-term is that we be able to pay sufficiently well to attract the kind of people we need. I do not think we can substitute and take less than the brightest in Government.

Ms. KLEEMAN. I agree.

Senator ROTH. I think that means that we have really got to do some hard thinking and planning, because there is no question in my mind—and I do not like to pick on the Pentagon—but a lot of improvements can be made, personnel-wise, to improve their productivity.

Let me go back to your testimony, because I think you made some very important points, Ms. Kleeman. You do agree that this legislation does help provide opportunity for those who are somewhat discriminated against—the young, the women and minorities, in many cases—that it will open up greater opportunity than is now available.

Ms. KLEEMAN. Rather than RIFs under which these people would suffer, if we are going to have budget cuts or program cuts, and it is necessary to reduce the work force, this is a far better way of reducing the work force, and it does protect the women and minorities and the newer employees.

Senator ROTH. Because when you have a RIF, isn't it true that normally they are the first to go?

Ms. KLEEMAN. They are the first to go; so this is a far better way of cutting the work force if you have to cut the work force.

Senator ROTH. Is there any question in your mind that modern technology means a shift, certainly, in the kind of personnel and perhaps numbers, from the past?

Ms. KLEEMAN. No; I think that is happening regularly, but I think again my concern is that the bill would cover any and all agencies, not just the ones where those change are taking place.

Senator ROTH. You raise a very good point. Let me ask all three of you this question. How would you improve upon this bill? What changes would you suggest? For example, you do have a differing problem where you have an agency of 100 people compared with an agency—how many does the Pentagon have—one million——

Mr. SMITH. One million, yes.

Senator ROTH. Should there be some kind of an exemption, for example, for small agencies, or do you think the 25 percent—or maybe take all agencies below a certain number and lump them together and give the 25 percent figure to the President so he could control it through the OPM?

Mr. SMITH. I would have to say, Senator, that I think by the time we got enough of those restrictions in there to make us comfortable, we would be about where we are now with the current early-out authority, because of our concern that it be made available in organizations that are experiencing the problem and not willy-nilly where we don't need to have people leave us.

Senator **Roth**. Ms. Kleeman?

Ms. **Kleeman**. I think targeting the hard-to-fill jobs and allowing managerial discretion or agency head discretion on who can leave and who can stay is crucial. I am not sure how I would figure a percent, but I do think that the head of the agency should be able to retain those people who are in critical positions.

Senator **Roth**. Well, we did provide, of course, a six-month extension. The one thing that always concerns me in that area is that, number one, I think experience has usually shown that younger members of an organization usually are able to take over very well—the tendency for any large organization in particular never to want to make any changes, because it is easier on management. But if you are going to give opportunity—take the secretary whose letter we read, obviously a very able executive secretary, but somewhat stymied in her own career, frustrated—I daresay that her boss would say she is critically essential to him.

Ms. **Kleeman**. One of the things we are really lacking in the Federal work force now is some planning ahead for where we are going, to have needs planning and training for those who fill jobs, or even targeted recruiting to fill them. I think we have done a very poor job in the Executive Branch in planning for your future work force. And what you are saying, in encouraging the younger people to be able to be promoted into the jobs is crucial, but so far we have not done a very good job of that kind of training for future jobs, either.

Senator **Roth**. Well, two things concern me, as I have already—and I agree whole-heartedly with what you are saying. One is that I do not see any real planning as to what kind of work force we are going to need in the Nineties. This is a fast-changing world, and Government has to keep up with it as much as the private sector. I am very concerned whether we are going to be able to attract these skilled people because of the differences in pay.

I think we need to see what we can do about productivity; if we can increase productivity, that in turn means we can pay better. We are already falling behind, according to the studies. So I think point number one is exactly right. We need to set out landmarks—how much productivity can be increased per year, by what means, and then decide what kind of personnel.

Ms. **Kleeman**. We have done several management studies at the General Accounting Office, and in each one of these when we have gone into a department or agency, we have found one of the really crucial problems is that there is no work force planning and very little looking at the productivity issue. So I agree with you that these are needed.

Senator **Roth**. Well, Mr. Chairman, in closing, and then I am finished with this group of witnesses, I would just say that I think that this early-out provides a very valuable tool or mechanism to bring about the kind of transition in the work force that is necessary to do it in a compassionate way. I think there are some additional things that probably can be done to improve it, but I think the opportunity for early retirement with some kind of a freeze will enable us to provide not only better opportunity but better compensation to those who are with us now or join us in the future. And I think if we are going to get the qualified people we want, we have to make a better environment.

Thank you.

Senator PRYOR. Thank you, and we thank the panel.

Our second panel is Mr. Dale Hatch, Director of the Office of Planning and Budget from the State of Utah; and Mr. John Sullivan, a transportation specialist with the Navy Supply Systems Command.

Mr. Hatch, we welcome you to the Committee today and look forward to your statement. You may summarize your statement, and the entire text of your statement will be placed in the record.

TESTIMONY OF DALE C. HATCH, DIRECTOR, OFFICE OF PLANNING AND BUDGET, STATE OF UTAH

Mr. HATCH. Thank you. I would like to submit the statement [1] and summarize it, if I may.

Senator PRYOR. That will be perfectly permissible.

Mr. HATCH. I appreciate the opportunity to comment on Utah's early retirement experience. Utah's early retirement program was initiated in March of 1987, following a 45-day legislative session. As a result of that legislation, over 5,000 of Utah's employees were eligible for early retirement under this program. About 3,300 of those employees opted for early retirement under the bill. In other words, 62 percent of those who were eligible retired.

The purposes set out by the legislature for the bill, the three objectives, were: one, reducing the cost of government; two, rewarding long-term employees, and three, increasing career opportunities for those remaining in the system. Let me just comment about the results to this point with that program.

It was felt as far as cost savings to the Government that there were three ways in which to do that. Number one was to not replace positions or retirees; in other words, elimination positions. Number two was to replace positions, but to replace them at a lower cost, with new hires. And the third was, although it was felt that most, and I should say, a vast majority of the employees of the State were very productive, worked hard, and had a great desire to serve, that there were some who were not as productive as they once were, had been in the system a long time, felt boxed in, you might say, as was referred to earlier, and that productivity could be increased by replacing them with new, younger, energetic, well-trained individuals. That has, I think, indeed been our experience.

As far as the cost savings itself, a study has been completed by the Legislative Auditor General for the State of Utah, and they have analyzed the first two years of the program. Their report indicates that the net savings to the State of Utah for the first year is approximately $8 million. That is a little over half a percent of the general fund, uniform school fund operating budget of the State. That is the net savings after paying for the additional cost of early retirement. The second year, that jumps up to almost $14 million, over one percent of the budget, and it increases the second year because the additional costs for taking vacations, those sorts of things, were paid out in the initial year and were part of that cost calculation.

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[1] See p. 71.

So it has been, I think, very cost-productive thus far to the State.

As far as rewarding long-term employees, the legislature made a decision to increase the benefits for those early retirees, and they did that in two ways. One, they eliminated the actuarial reduction under Utah law for those retiring prior to age 65. In other words, they waived that provision, and there was no actuarial reduction for those who took the option under the early retirement program. Number two, the current formula or system for retirement in the State of Utah has only been in effect since 1975, which provides for 2 percent of final average salary credit per year of service beyond 1975, and before 1975, it was a smaller amount, 1.25 percent for part of the time and 1.1 percent.

Under the legislation, they increased that so that those opting for early retirement were credited with 2 percent for every year of service, which increased their benefits a great deal. I think those two provisions led to the 62 percent figure of those who opted for early retirement.

The program has increased career opportunities for those remaining in the system. We have seen a domino effect of promotions within the system for those who are there and a significant number of new people coming into the system.

I think directly attributable, at least in part, to the early retirement program is this session the legislature authorized a pay increase for existing employees that has not been the case for the last several years.

In summary, although we, I think, would make some changes if we were to do it again as far as the way we were to implement it, I think it has been very cost-effective and a prudent plan and has worked as intended so far in the State of Utah.

Thank you.

Senator PRYOR. Thank you. By the way, I have got to ask you, Dale Hatch, are you any kin to the distinguished Senator from Utah?

Mr. HATCH. We may be related but very distantly. I am not aware of a relationship—so I am safe either way.

Senator PRYOR. Thank you, sir. We appreciate your statement.

Mr. Sullivan?

TESTIMONY OF JOHN F. SULLIVAN, TRANSPORTATION SPECIALIST, NAVY SUPPLY SYSTEMS COMMAND

Mr. SULLIVAN. Good afternoon, Mr. Chairman, Senator.

I wish to emphasize today that I am testifying as an individual Government employee; the views I express here today are my own and not meant to reflect on those of my employer, the Naval Supply System Command [NAVSUP].

In my testimony today, I am calling on over 20 years of work experience ranging from typing in a steel mill office to managing programs with budgets of over $400 million a year. I view the issues before us not as a labor versus management, or Republican versus

Democratic issue, but from the realization that the Government must reduce its work force level to meet expected budget constraints.

Unless we make an effort to reduce the number of senior employees, now, it is likely that many women, minorities and younger workers will suffer the severe shock of loss of jobs and income.

I speak from the personal experience of being a college-educated person, employed at a professional level, who was given a four-hour notice of a layoff during the 1973–74 economic crisis brought on by the so-called energy shortage. Gentlemen, you cannot measure the loss of confidence, esteem and self-worth as a result of such an action.

If enacted, this legislation will not present today's Government managers with a new situation. We need only look at the agency where I entered Government service as a civilian, the Civil Aeronautics Board [CAB]. The CAB was faced with being the first modern Government agency to dissolved under the sunset provisions. In preparation for the dissolution, the CAB implemented several hiring restrictions. Then we heard all the dire predictions: There will be a brain drain. We will lose all our key managers to early retirement, other agencies or private industry. Or the end-all: We won't be able to perform our mission.

What happened is most interesting. At its peak in 1979 when deregulation was set in motion, the CAB employed approximately 830 people. By the time of the sunset in December of 1984, there were fewer than 325 people.

What the CAB managers discovered was that as the key employees and supervisors left, the competent staff members remaining were given an opportunity to prove themselves. These people exceeded all expectations. In addition to new stars rising, most supervisors were given an opportunity to redistribute the work load, often resulting in more productive methods.

The CAB executed a managed approach to sunset without a reduction in force or a drop in quality of work.

We also have the experience of recent Navy actions. In February of 1987 and 1988, NAVSUP and the Naval Air Systems Command offered its employees an early-out. Of the total population of 27,891, 1.7 percent took advantage of the opportunity. And fears of management and unions that there would be a mass exodus of workers aged 44 to 55, the youngest group eligible, did not happen. One at 47 years of age was the youngest, with the bulk between 52 and 55 years old.

Also of great interest were the grade levels—two GS–6s, two GS–7s, one GS–8, three GM–15s, and one Senior Executive Service member; over 400 others between GS-12 and GM–14.

The impact on union enrollment was a mere trace, if any.

Two other Navy Commands are in or about to enter periods for early-outs. The expected acceptance rate at these Commands is 1.8 percent of the total population of 7,337. These agencies are faced with a need for reduction of over 350 positions in the near future through attrition, early-outs, or RIF. The provisions of this Act may save some employees from the dreaded pink slip.

From these examples and my experience, I conclude that this Act will not put any one or group of persons in a position to abuse the system to the detriment of the operations of any agency nor will it cause a noticeable loss in union rolls. These numbers indicate that what we have here may be referred to as a "trickle out syndrome". I do not mean to make light of the contentions of the opposition, because I know that fears cannot be overcome by reason and logic. If they could, I would not have to grip my steering wheel so hard when crossing the Bay Bridge. The Government is filled with competent, conscientious career employees like me, who stand ready to accept the challenge of tomorrow's management decisions.

Mr. Chairman, I thank you for the opportunity to present my views to the Committee this afternoon. I will be more than glad to try and answer any questions that you might have.

Senator PRYOR. Mr. Sullivan, thank you.

Senator Roth?

Senator ROTH. I want to thank both you, Mr. Hatch, and you, Mr. Sullivan for taking the time to be here today. I think your testimony is most helpful.

Let me address my first group of questions to you, Mr. Hatch, and then I will address several to you, Mr. Sullivan.

Where did the idea of this early-out program come in the State of Utah—was it from the private sector?

Mr. HATCH. Yes, I think the derivation was there. We have had some budget challenges in the last years with revenues not increasing with the population and particularly the public ed population. We have had the highest growth rate in public ed in the Nation and have the largest segment of our population in that category of any State in the Nation, and it has created some budget challenges. But the legislature and specifically the legislator who authored the bill had an experience with early retirement in the company in which he served in the private sector and transferred that kind of experience into his bill.

Senator ROTH. I think in your prepared testimony, you stated that the legislature had three objectives in mind in passing the early retirement bill. Could you be more specific as to what those three objectives were?

Mr. HATCH. Again, one was cost containment or reduction in the cost of Government, going hand-in-hand with those budget challenges that I talked about; secondly, a desire to reward or make it more equitable in essence for those who had served long for the State of Utah if they were not receiving at that point in time the same credit for each year of service as those who were there for a shorter period of time; and thirdly, a way to provide career mobility or mechanisms for those lower down in the system to advance and to have opportunities for growth development and management in the State of Utah.

Senator ROTH. And it is your conclusion that at this stage, I recall you specifically saying that it did result in cost containment; is that correct?

Mr. HATCH. It has thus far, definitely.

Senator ROTH. And how about the other two objectives—do you think it achieved those goals as well?

Mr. HATCH. I do.

Senator ROTH. You perhaps heard our discussion a little earlier about productivity. Was that a factor in consideration, or has it had any impact on your knowledge of productivity of Utah employees?

Mr. **Hatch**. It has, and let me refer to a specific instance. There was some talk about the devastating effect potential of such a thing as having the employees themselves opt for this kind of provision. The department in Utah hardest-hit as far as number of early retirees was the Department of Transportation. Over 15 percent of their work force retired under the provisions of this bill.

Senator **Roth**. Fifteen?

Mr. **Hatch**. Over 15 percent, yes. And I did not mention, but probably should, that hand-in-hand with this bill, the Governor issued an executive order or policy as far as the departments over which he has charge—one of those is transportation—that on the whole or average, only half of the positions, or at least that equivalent number of FTEs, would be filled. In other words, we reduced the State work force in the departments which the Governor has direct jurisdiction over by half; about 700 are retired in that category and only 350 positions were replaced. That had a direct impact on the Department of Transportation, and we had to make a slight adjustment for the department, partly because of the large number retiring and partly because of the fact that they received a fairly substantial discretionary fund allocation from the Federal Government for highways after that point in time. But they still reduced 100 employees in that department, which is about 6 percent of their work force. But because of computer programs, for example, that assist in engineering and work with roads and those sorts of things, my analysis is that there has not been a substantial decrease in the service rendered.

I talked just yesterday to Gene Findley, the head of that department. His indication was the same thing—he has not seen a decrease in the service of any substantial amount, and he is very positive with what it has done for morale, and for those in his department, it has been a bit of a problem logistically in the interim trying to correlate that. To assist in that, the Governor also on a case-by-case basis extended the employment of key employees that was permitted under the law, and of the 18 extensions the Governor granted for employees, 6 of those were in the Department of Transportation.

With that provision, I do not see, and neither does the head of that department, that there have been any significant problems with the implementation of early retirement, and it has been a positive for them.

Senator **Roth**. Even though your plan, as mine, gives the option to the employees.

Mr. **Hatch**. Right. Our bill did give the option to the employee, and that means that you may have employees retiring in certain key positions, but the Governor's stance was that as a department head, if that is a key position, you go ahead and fill that position as long as you find a position somewhere else that you are not going to fill and is not as critical, so that the overall bottom line was that half of those positions, or the equivalent of half, were not replaced.

Senator **Roth**. It seems to me what you are saying is that if the Executive Branch has a will, it will work.

Mr. HATCH. It will work, and modifications can be made, and I think some beneficial changes in format and structure in departments—transportation is one—have occurred.

Senator ROTH. Thank you very much, Mr. Hatch.

Senator PRYOR. Could I ask a couple questions, Senator Roth, of Mr. Hatch?

Senator ROTH. Sure.

Senator PRYOR. I am really impressed with these figures, and I think you are painting, a pretty picture of what is happening in Utah. Let me ask about another department. You talked about transportation. Do you have figures, for example, from the State Health Department? What happened there, to their employees? Was there as large a percentage of those retiring?

Mr. HATCH. Not as large a percentage. And as I said, hand-in-hand with this early retirement through this last budget cycle, the Governor made a decision to begin to restrict FTE growth and actually reduce FTEs across the board, irrespective of the early retirement program. And we established FTE targets that would reduce FTEs in departments at least 2 percent, whether they had early retirees or not. And I could look up the specific figures, but I believe the Health Department was between 2 and 3 percent, not as high as Transportation.

Senator PRYOR. That percentage in Transportation was what, again?

Mr. HATCH. The actual number finally who were not rehired was between 5 and 6 percent.

Senator PRYOR. I would also like—you may not have them now, but for the record—the figures for your State prison employees; what sort of a transition did you have there from the State prison?

Mr. HATCH. I would have to look there, and that is one department that is growing and has been a great deal.

Senator PRYOR. Prisons are a growth industry, it seems like.

Mr. HATCH. It is a growth industry, and there were some adjustments made there. It would have been one of the lowest as far as number of FTE decreases. There was a differential among departments based upon those kinds of criteria.

Senator PRYOR. In your summary of your opening statement, Mr. Hatch—I think this figure is correct—you said 62 percent of those eligible to retire under this program retired.

Mr. HATCH. Correct.

Senator PRYOR. They got out of State government. Now, do those agencies in Utah get to keep those dollars and use them as they want, or do they just ask for fewer dollars in the appropriation cycle in the next year? How does that work in Utah?

Mr. HATCH. Okay. In this past year in the budget cycle, we in the budget office made an estimate of the savings that are very similar to the ones in here that the Legislative Auditor did, and we in essence reduced the base budgets by the amount of those savings, and then those savings were available for the legislature to appropriate or do what they wanted with those savings. The departments themselves did not keep it unless it was reallocated by the legislature.

Senator PRYOR. You have used the Transportation Department, it seems, as sort of a case study. You said the morale seemed to be good in the Department; is that correct?

Mr. HATCH. According to the director, yes.

Senator PRYOR. When all these people leave a department or agency, does it increase the work load of the remaining workers, or the remaining employees? How does that work?

Mr. HATCH. It has increased the work load to some extent, but they have also introduced technological improvements that have made it unnecessary to have as many employees. It has also given the opportunity of progression and movement through the system, promotions, et cetera, and the bottom line, I think, has been an overall positive impact.

Senator PRYOR. I think, if I am not mistaken, that Senator Roth's legislation does not apply to either the Postal Service or the Department of Defense, is this correct?

Senator ROTH. It applies to the Department of Defense.

Senator PRYOR. It does apply to the Department of Defense. I am glad it does, because we have seen a tremendous increase in the last dozen years or so in the number of civilian personnel in DOD. They are talking now about building a new Pentagon; I think it is to house all the civilians that we have hired. I think the morale might increase if we had fewer employees.

Senator ROTH. I might point out that the Packard Commission also recommended that there were too many involved in the procurement.

Senator PRYOR. I think over 100,000 are involved in procurement, and they have all got to justify their existence.

Senator Roth?

Senator ROTH. Mr. Sullivan, I appreciate your being here today, and I think we all understand that you are here in your private right and not representing your agency.

From your experience and your testimony, you do point out that, in your agency that you have since left, the fear that they would lose all their qualified people did not materialize. Is that correct?

Mr. SULLIVAN. That is correct, Senator. In spite of the fact that there were several key people who left, they had well-trained people underneath them who were standing, ready and willing and very able, to fill in and perform.

Senator ROTH. I think that is a very, very key point that we tend to overlook here, that unfortunately, many times, some of the younger and most able do not have the opportunity to develop or assume the responsibility for which they are capable, and that in your experience that is exactly what happened.

Mr. SULLIVAN. Yes, sir.

Senator PRYOR. By the way, Senator Roth, your legislation would not apply to the military or the uniformed personnel, would it?

Senator ROTH. No, it would not.

Senator PRYOR. It would exclude them.

Senator ROTH. Yes, absolutely.

Senator PRYOR. I am trying to figure out a way we can gracefully get rid of all the excess generals we have.

Senator ROTH. I was just going to ask you that.

Senator **Pryor**. I am thinking I might support this bill if you can somehow or another figure out a way to do that. We have far more generals than we need, as I understand it.

Senator **Roth**. Isn't it true we have more stars today than we had in World War II?

Senator **Pryor**. I think that is correct.

Senator **Roth**. Going back, could you describe your current responsibility—do you believe that our future work force will have to be more skilled to meet the future technology?

Mr. **Sullivan**. My current responsibilities, Senator, first, are basically dealing around two major projects. One is setting up and keeping going a transportation network to bring broken parts from ships in overseas activities back to the States for repair; it is known as "depot-level repairables". The other project involves movement of materials procured from various vendors, consolidation and moved overseas. And then I am also primarily responsible for examining transportation as it affects procurement, determining how a contractor will be paid or whether material that we procure from a contractor will be moved under a Government bill of lading.

As far as a smarter technological work force, I don't think there is any doubt in my mind right now that some recent developments such as electronic mail for messages, electronic mail for approval of memoranda that are circulated up and down the levels of bureaucracy, could very well be done electronically rather than sending it up in final form, having it rewritten three times, retyped, reproduced. The savings there alone would be substantial. Reductions in clerical personnel to perform the same mission would be noticeable.

There are other such technologies that are available today, like the simple telephone, which is not a simple machine anymore. You have options such as on-hook dialing, duplex speakers, redialing and auto dialing, especially if you try to use what used to be the FTS or Autovon networks, where you are dialing a rather large group of numbers, redial or on-hook dialing or hands-off dialing would be extremely helpful there.

Teleconferencing instead of travel expenses for meetings—I think the most effective way to present this would be to look at when was the last time you had a conference that lasted an hour, and when was the last time you had a telephone call that lasted an hour. I think with the teleconference, especially repeated areas such as Washington and NAVMTO, or the Navy Material Transportation Office, where I call daily, there are often times when I travel to Norfolk for meetings that last an hour or two, and I am back on the airplane, coming home. That could very easily be done by teleconferencing.

We would be forced to work with a smaller work force, but I think we could insist on the use of productivity enhancements for all Federal employees. I think one of the keys that we have discovered in our office is mandatory keying by action officers. Instead of having an action officer write it in longhand and have a secretary attempt to decipher that and type it, I think requiring all action officers to have keying skills or to develop their keying skills would be a great benefit, again saving in clerical as well as professional time—you key it in, you automatically electronically transfer it to your supervisor for his approval, it gets electronically sent forward for signature, and once approved at that level, then you produce a hard copy.

These are not new, Mr. Chairman. These are standard practices that we could implement today.

Senator ROTH. I think your illustrations are excellent. One of the primary reasons the Japanese have been able in some cases to outcompete us is because of what they call inventory control, as I understand it. And when you stop and think what these modern technologies would mean just from the personnel standpoint, but also from the amount of inventory that is necessary because of instantaneous communication, the savings would be staggering; isn't that right?

Mr. SULLIVAN. Yes, sir. Right now, we probably have in the transportation pipeline $6 million a day in broken parts, flowing back to the U.S. for repair or back after being fixed. We have recently reduced that transportation pipeline, that total pipeline from the time it is broken and requisitioned for repair to the time it is ready to be placed back in service substantially because we have shrunk the transportation pipeline, and we have shrunk the time necessary to identify the part and get it to its appropriate repair point. So, yes, that is possible.

Senator ROTH. So one individual or a lesser number of individuals really can handle more efficiently a larger amount of inventory than he or she was able to five or ten years ago?

Mr. SULLIVAN. Yes, sir, because it is also electronic information all along the network, so they know exactly when a part enters the system, and they can estimate the number that will be needed to be purchased instead of having a much longer pipeline; you can reduce that number, too.

Senator ROTH. Now, is that going to require more skilled, more trained type of personnel?

Mr. SULLIVAN. I think you will have to work smarter. I think we have the people there right now with the capabilities, with the intelligence; I think we just have to train them to work smarter.

Senator ROTH. Let me go on. Do you see a parallel situation between what you experienced at the Civil Aeronautics Board and what would happen under my legislation?

Mr. SULLIVAN. There is no doubt in my mind, Senator. I have seen it with people who have gone out in my division under an early-out last year—again, people under them have just taken over like there was no problem, they have risen to the occasion. And I saw that at the CAB, and I do not see that there is any agency in this Government with the people that I meet on a daily basis that would have any problem doing that.

Senator ROTH. If this bill passed, would you view it as improving the career opportunities for you and your peers?

Mr. SULLIVAN. I think it would be not only an opportunity for me, yes, or for people in a similar position. I think it is more of an opportunity for the agencies themselves, though, to improve their work methods, and I think that is more important because productivity increases are going to result in budget savings, and that is what this is all about. And I think your bill allows for that type of action.

Senator **Roth**. In other words, the name of the game is productivity.

Mr. **Sullivan**. Exactly, sir. I can do more with fewer people if I can use every available productive method. And I think if I am forced to redistribute my work load because one or two people leave, and I cannot replace them, then I am going to really know who my stars are and who my nonproducers are.

Senator **Roth**. That in turn would enable us to make savings both for the taxpayer and better compensation for the employee.

Mr. **Sullivan**. Well, the better compensation, sir—as a career civil servant, I know that I am not going to be compensated to any great degree to the level that I would be on the outside—perhaps wisely so, when Congress makes its decision and when the President makes his recommendation; I know that I am not going to be compensated to the greatest level. But there are trade-offs there, and I recognize those, and I accept that.

Senator **Roth**. Would you agree with me that many of our young college graduate scientists, secretaries and others want to serve in Government, that there are benefits that make it attractive?

Mr. **Sullivan**. I can only reflect on what happened when I was receiving my graduate degree, that any time a Government agency appeared on campus, there was a flood.

Senator **Pryor**. Is that still the case?

Mr. **Sullivan**. I have to think that it is. I have been away from the campuses for over ten years, Senator, but I do not think that has changed much.

Senator **Pryor**. One question. What did you just say, that you would not be receiving a higher position, or a higher salary?

Mr. **Sullivan**. No, sir. I don't believe that my wages are going to increase substantially because of the bill unless it is through promotion.

Senator **Pryor**. Oh, I see, I see.

Mr. **Sullivan**. But that is not going to occur overnight under the provisions of this bill. I recognize that.

Senator **Pryor**. I see.

Mr. **Sullivan**. And I also recognize that as a Federal employee I am not going to be compensated as well.

Senator **Roth**. Let me go back to what I was trying to say, that it seems to me, because of the technological revolution, that we are going to require—not totally—but more highly-trained, skilled personnel, which in turn is going to mean in many cases less people, which again in turn can mean—better benefits, better pay, and in turn also help the taxpayer.

To me, the great advantage of this proposal is that it works in the interest of the employee, the current employee who wants out, the current employee who wants to stay in and have a future; it works in favor of the taxpayer from the standpoint of more productivity, savings. So that I think it is an unusual set of circumstances where savings can be made that basically benefit all involved.

Would you agree with that?

Mr. **Sullivan**. Yes, sir, I would.

Senator ROTH. Mr. Chairman, I want to thank both Mr. Sullivan and Mr. Hatch for their very helpful and illuminative testimony and express again my appreciation for their taking the time. I think they are two good examples of the high quality of personnel we have in the public sector, whether it is at the State level, Mr. Hatch, or at the Federal level, Mr. Sullivan, and I am grateful to both of you.

Senator PRYOR. The Committee is very indebted to both of you for your testimony.

Thank you very much.

We will call our third and last panel. I have just been notified that Senator Glenn is on his way. As I said earlier, he has been in an Armed Services Committee meeting all afternoon.

On Panel 3, we have several familiar faces: Mr. Ken Blaylock, who is the President, American Federation of Government Employees; Ms. Carol Bonosaro, who is President of the Senior Executives Association; Mr. David Gusky, Executive Director, National Federation of Federal Employees; Mr. Bruce Moyer, Legislative Counsel, Federal Managers Association, and Mr. Robert Tobias, President of National Treasury Employees Union.

We welcome all of you. I believe one of our witnesses could not appear today; is Ms. Carol Bonosaro not here?

Mr. SHAW. I am Mr. Shaw, Senator, and I am substituting for Ms. Bonosaro.

Senator PRYOR. Thank you. I am sorry. I was not notified that we had someone to fill in for her. Thank you very much.

Mr. SHAW. It is actually very advantageous, because her name comes before mine in the alphabet.

Senator PRYOR. All right.

Mr. Ken Blaylock.

TESTIMONY OF KENNETH T. BLAYLOCK, PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO

Mr. BLAYLOCK. Thank you very much, Mr. Chairman.

I do have a complete statement I would like to enter for the record,[1] and I have my remarks summarized in an oral statement.

S. 42 is a revised version of S. 2197, which was introduced by Senator Roth in the 99th Congress and on which we testified before this Committee in May of 1986. As you recall, we opposed the legislation at that time, and since that time, Mr. Chairman, I have visited literally dozens of Federal activities within the Defense Department and within the service agencies, and I am even more convinced at this time that this is not a responsible piece of legislation at this point in history in Government.

We think it is bad for the public, for Government programs and services, and also for Government employees. We think it is a bad way and not a responsible way for personnel management, and it's likely it will cost more money.

We oppose the legislation as currently drafted on five different specific grounds. One, no agency could absorb the personnel loss without severe disruption of programs and services. Employees remaining would be subjected to impossible demands, work speedups, and pressures, and the bill does nothing to reduce work load; it simply reduces the number of people with an already very tight work force out there today.

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[1] See p. 91.

Instead of savings, the bill will likely increase costs as agencies avoid lower personnel ceilings by hiring additional contract employees. And there is no bar in the bill against contracting out of the work, only in hiring.

With the personnel reductions, we estimate that some 242,000 jobs essentially would be eliminated by the bill, and it theoretically could run as high as 700,000.

The 200,000 minimum plus employees who would retire would be drawn from the most experienced personnel; those personnel with the institutional memory that every work place needs for continuity and efficient operation.

Mr. Chairman, this is a non-planned, unmanaged legislative by mandated manpower reduction. There are current provisions in law—all agencies can get authority for early-out retirement in their planning and managing of their agencies, and many of them are doing that right now. It really becomes a backdoor method for a line item veto in that the President can waive such hiring restrictions for essential services and for employees who are financed through user fees subject to certain other limitations.

When you compare the effect of this bill to the President's fiscal year 1989 budget, it seeks to cut Federal positions by 26,605 jobs. Mr. Chairman, we and other organizations have criticized the Administration on many grounds, but for the life of me, I cannot remember any of us claiming that Ronald Reagan seeks to pad the Federal payroll. Yet this legislation would realistically knock out almost ten times as many Federal positions as proposed by the President in this year's budget.

The premise that the Federal Government can reduce personnel without reducing work load and the role of Government is greatly flawed. Over the past decade, salary and expense accounts and administrative budgets have been drastically squeezed through the Federal Government.

As I travel through this country, speaking to locals, I hear a repeated theme: We used to do this job thoroughly and correctly; now, with reduced personnel, our additional work load, we just make do.

You simply cannot expect to do away with the work force and believe that Government programs are going to remain standing. If the envisioned reduction in employment did take place, the impact on the remaining work force would be devastating. This retirement would not take place in a rational or even-handed manner.

As an example, in the Social Security field offices, one could expect some offices to be hit with up to 50 percent retirement, while other offices would have few retirements. The Social Security Administration under the hiring constraints would then be forced to transfer thousands of employees from one office to another, to even out the staffing.

Of course, many of these employees would quit rather than move their families from one community, adding another wave of personnel disruptions to the agency and its employees.

The dislocations would not only be geographic; certain positions are likely to be especially hard-hit, while others escape uncut, thereby creating severe job imbalances. As anyone here knows, if you don't have sufficient support staff as an example, and you are professionals, you cannot get the job done.

In the VA Hospitals, as an example, it would be very difficult for doctors to treat patients if the x-ray technicians had retired and could not be replaced.

Finally, of course, it is a truism that if the work force is reduced by 8 to 15 percent, while the work load remains the same, the remaining workers will need to work much faster, harder and longer, without respect to the fact that Federal workers already put in a hard, honest, full day's work.

I have already mentioned the lack of a bar to contracting out. If the work load is not reduced, the managers still have to get the work done, and they are going to turn the job out.

Senator ROTH. If I might just inject a comment—because I agree with you on the contracting out, and we do have a clause to limit. Now, maybe that language ought to be strengthened, but we don't intend that they contract out as a substitute.

Mr. BLAYLOCK. Senator, in the version that I last saw when we prepared this, there was not a provision in there barring contracting out. If it is in there, that obviously would solve part of our problem.

Senator ROTH. On page 11, it says,

> The President shall take appropriate action to ensure that there is no increase in the procurement of personnel services by contract by reason of the enactment of this section, except where it would be a financial advantage.

Maybe that language could be strengthened. But we are of one in that goal.

Mr. BLAYLOCK. Thank you, Senator.

If I could sum up, in conclusion, the agencies already have authority to use early-out retirements in a managed way. Where they have reduced budgets, it gives them an opportunity to plan whether or not it fits their needs to use this vehicle in managing the work force and the work load. We think that with a broad-scale early-out retirement availability, you would lose large numbers of skilled people who have put in a lot of time with Government, but today are very demoralized, and I can tell you, if this goes into effect, they are going. So the President would wind up having to include many waivers from this bill in order to hang onto the skilled work force they have.

With the pay caps that we now have in, and with all the other problems that Federal workers have had coming out of these bodies up here and the Administration for the last ten years, you have a group of workers out there who would leave at the drop of a hat if they could find anything. And we just think it would be very devastating to the Federal Government and getting our job done today, so we oppose the bill in very strong terms.

Senator PRYOR. Thank you, Mr. Blaylock.

I will turn the gavel over at this time to Senator Glenn, the Chairman of this Committee. I am glad Senator Glenn is here.

By the way, Mr. Blaylock, we mark you down as undecided, how is that? [Laughter.]

OPENING STATEMENT OF CHAIRMAN GLENN

Chairman GLENN. I want to thank Senator Pryor for chairing this. We all have multiple committee duties around here, and I had one on a mark-up in Armed Services this afternoon, in which we were into big, heavy dollar decisions, I can guarantee you that. It was a mark-up on one of the subcommittees. And Senator Pryor very kindly agreed to chair this until I could get over here, and the other Committee has not finished yet, so we are going to be continuing on that.

But I am sorry I was not able to be here for the opening. I did have a statement, and I believe it was available, and it will be included in the record; I will not bother going through it now.

[The statement referred to follows:]

PREPARED STATEMENT OF CHAIRMAN GLENN

Good afternoon and welcome to today's hearing which focuses on S. 42, a bill to establish an expanded early out retirement program for Federal employees. This legislation was introduced by my colleague Senator Roth earlier in this session.

I support a liberalized early retirement program for Federal employees as a humane alternative to reductions in force [RIFs]. The Office of Personnel Management [OPM] can authorize such early retirement programs for specific Federal agencies facing major employment reductions or eliminating specific program positions. Under this early out authority, employees can retire when they are at least 50 years old with 20 years of service, or regardless of age, with 25 years of service.

Since the start of this fiscal year, OPM has approved 37 agency requests for early out programs. Many Department of Defense [DOD] units have been granted early out authority. The Small Business Administration, the Department of Transportation's Office of Inspector General, the National Labor Relations Board Houston Region, and the Department of Agriculture's Federal Crop Insurance Corporation are among some of the other agencies that have participated in providing early retirement benefits. The question is whether there are any serious obstacles to implementing the existing early out program in agencies where personnel reductions are needed. We will examine this issue in more detail today and determine whether additional legislation may be necessary.

S. 42 proposes to go considerably beyond current law by authorizing a one-time, 90-day, early-out opportunity, government wide—regardless of individual agency concerns. If we were to simply take the bill and enact it into law, almost 20 percent of the Federal Government's employees would be eligible for retirement this year.

Although these early retirement benefits would immediately cost the Federal Government money, S. 42 proposes to save money at the same time by imposing a 3-year hiring freeze on replacing employees who retire during the 90-day retirement window.

The Federal agencies which have reviewed this legislation have indicated to me that it could seriously disrupt their operations. Many concerns have been raised that the enactmeent of S. 42 enactment could result in the loss of the some of the best and most experienced Federal employees. For example, the Central Intelligence Agency [CIA] wrote that the agency's most senior officers would be able to retire, and I quote: "Passage of this bill would have a serious, negative effect upon the Agency's ability to effectively perform its intelligence functions."

NSA, the National Security Agency, wrote, and I quote: "Approximately 60 percent of all key agency managers and between 30 to 50 percent of our most highly trained technical staff, people who cannot be easily replaced by junior members of the work force would be eligible for retirement."

That's nearly two-thirds of all key managers in one of our Nation's most important national security agencies potentially leaving Government service.

NASA, the National Aeronautics and Space Administration, another vital agency, indicated that of the 40 percent of its work force which would be eligible to retire under S. 42's provisions, 80 percent are key line managers and over 75 percent are GS-12, and above, the most most seasoned personnel on staff. NASA concludes that, and again I quote, "The bill would severely disrupt the accomplishment of our mission due to the loss of a large number of our most senior and experienced people and the three year restriction on replacing retirement losses."

I'll have all the agency responses the Committee has received placed in today's hearing record. Some copies are available on the tables in the hearing room.

In addition to the concerns about the impact of S. 42 on agency missions, serious reservations have also been raised about its cost. The Congressional Budget Office [CBO] has estimated that enactment of S. 42 would increase direct spending by almost $2.1 billion through 1992. Now I know that my distinguished colleague, Senator Roth, believes S. 42 would actually save money. But, again, I must quote from the CBO letter on that subject:

"To offset these costs, the bill seeks to curtail the size of the Federal civilian work force, and thereby to reduce government payroll expenditures by an estimated $5.2 billion through 1992. But there is no guarantee that future appropriation levels—and thus budgetary costs—would be reduced accordingly."

In other words, any savings generated by this bill would be exclusively dependent upon future congressional action. Notwithstanding S. 42's limited hiring freeze, according to CBO, there will inevitably be pressure to use overtime pay and contracting out as means to compensate for lost personnel. The costs associated with these practices is largely incalculable.

In conclusion, I want to reiterate my support of liberalized early out opportunities for Federal employees who face being "Riffed". While it is true that S. 42 would provide this opportunity, the price, in general terms, appears to be a high one.

The fundamental question we should ask ourselves is this. If there are large numbers of senior Federal employees who wish to leave the system, doesn't that say something about the quality of working life for Federal employees? Shouldn't we be addressing the real concerns of Federal workers about pay and working conditions rather than focusing our attention on ways of allowing needed workers to abandon Federal service? These are among the questions we shall address today.

Let me just say again, welcome to our witnesses today. I look forward to an excellent afternoon of testimony.

Chairman GLENN. Ms. Carol Bonosaro, President of the Senior Executives Association, has been replaced by Mr. Shaw. Mr. Shaw, we welcome your testimony.

TESTIMONY OF JERRY SHAW, GENERAL COUNSEL, SENIOR EXECUTIVES ASSOCIATION

Mr. SHAW. Thank you very much, Mr. Chairman.

I am Jerry Shaw, the General Counsel of the Senior Executives Association, sitting in for Ms. Bonosaro today. I would like the full copy of her statement to be included in the record.[1]

Chairman GLENN. The entire statement will appear in the record.

Mr. SHAW. We were asked five questions by the Committee, and I will summarize our answers to those specific questions; and, we have five specific suggestions.

The first question was: How do Federal career Senior Executives view this legislation?

The answer is that, of those who have communicated with us, most of them generally favor the legislation. We believe that they view the legislation positively because they feel so cheated by the unwillingness of the Government to compensate them.

As recently was noted by the President's Commission on Compensation of Career Executives, these Senior Executives have experienced a "history of broken promises and pay caps, reduced bonus provisions, the effects of inflation, the comparative pay gap with the private sector, and the compression within and on either end of the SES pay range."

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[1] See p. 102.

I think one of the final blows was the denial to only Senior Executives of the 2 percent pay raise that was given the rest of the Federal work force this year.

The second question was: How many members of the Senior Executive Service do you think would take advantage of the early-out option?

Our estimate is approximately 10 percent. I noted with interest that Ms. Kleeman, presenting GAO's estimate earlier, said that about 20 percent would be eligible and about one-half of those normally go. That is basically the way we feel, and that is the history of what has been told us.

What impact will its enactment have on morale?

We think it will have a very positive impact on career Senior Executives' morale. There are many who have wanted to get out and would take the first opportunity, and those who stay would know that they are not being coerced into staying. An interesting statement was made this last week. When talking about why should the military be paid more than the career civil service, the answer was that, well, the military is a voluntary service. The career service ought to be a voluntary service, too. And because we are phasing out of the Civil Service Retirement System, which has applied the "golden handcuffs" in essence for older people who have been in the Government for quite some time, it will become a voluntary service though it is not voluntary now; the FERS retirement system will again make it a voluntary service, and we think it ought to be. There is a very high degree of resentment by people who feel that they are locked in because of this non-voluntariness.

What is our opinion of the current early-out programs?

We think that they are good, but limited. They often do not apply to the Senior Executives who most want to leave. And the reason they do not is because many of the agencies that are downsizing, reduce employees in positions which are not available in the private sector. They are often downsizing the same types of jobs in the private sector. So it is often difficult for them to have the options of leaving.

Fifth, given the current problems with retention experienced by the Senior Executive Service, do you think S. 42 is a good idea?

From the perspective of management of the Federal Government and the work force, and the need to meet our responsibilities under law to the American people, we agree with Mr. Blaylock that the consequences of S. 42 could be terrible.

From the information we have collected, we know that many Federal agencies are already experiencing difficulty recruiting from the outside to fill executive vacancies. Senior Executives are leaving daily for higher pay in the private sector, and it would be difficult for them to replace some of these people.

Chairman **Glenn**. Mr. Shaw, could you hold just one moment? I understand Mr. Blaylock has to leave.

Mr. **Shaw**. Excuse me.

Chairman **Glenn**. We appreciate your being here, Mr. Blaylock. I was just told by staff that you would be willing to answer any questions we may have in writing, if we want to submit them to you in lieu of further questioning, and we appreciate your being here today. Thank you very much.

Mr. **Blaylock**. Thank you very much, and I am sorry, Mr. Chairman.

Chairman **Glenn**. I am sorry to interrupt you, Mr. Shaw; thank you very much.

Mr. **Shaw**. That is quite all right, Senator.

We do have some proposals. The first is that in order to somewhat ameliorate the problems that would result from the Government-wide application of S. 42, we propose that employees be given a six-month window to utilize its provisions; during this period they would be required to make an irrevocable commitment. This would give an agency time to identify the positions where they need to replace people and more planning time to do so.

The second would be that the window of opportunity for retirement should start 120 days after enactment instead of 60 days. This longer time for informing employees and for the employees to decide and act would make it more effective.

Third, we suggest that Section 8(d) be amended to include reinstatement actions ordered by "a court or appropriate administrative agency of the United States". There are other agencies such as EEOC, the Federal Labor Relations authority and others that have back pay and reinstatement authority which should be included within the bill.

Fourth, the bill should explicitly provide that employees covered under the Federal Employee Retirement System would have the same early-out opportunities as those covered under the Civil Service Retirement System. Some went into the Federal Employee Retirement System just the last few months who would also like this opportunity.

And finally, along with Mr. Eickmeyer of the General Accounting Office who made this recommendation earlier in this hearing, we believe that the "handcuffs" which bind Federal employees to positions in the Government and the Civil Service Retirement System should be permanently removed. One way to do that would be to apply a full actuarial reduction to an individual's annuity so that the individual could leave whenever he or she so desired and essentially at no cost to the Government because of the full actuarial reduction. But we would not have employees in the Government any longer who felt like they did not have any options. Consequently, it would be a no-cost proposal and would ameliorate a lot of the resentment that people feel about their inability to do anything about their work situation at that particular time.

Thank you very much for the opportunity to provide our views.

Chairman **Glenn**. Thank you very much, Mr. Shaw.

We will proceed with everyone's statement and then get back with questions, if we could.

Mr. Gusky, we are glad to welcome you today. Mr. Gusky is the Executive Director of the National Federation of Federal Employees.

TESTIMONY OF DAVID GUSKY, EXECUTIVE DIRECTOR, NATIONAL FEDERATION OF FEDERAL EMPLOYEES

Mr. **Gusky**. Thank you, Mr. Chairman. I will submit my full statement for the record,[1] and I will just briefly summarize.

Chairman **Glenn**. It will be included in its entirety.

Mr. **Gusky**. Really, what gives us the greatest fear about this piece of legislation, Mr. Chairman, is the sheer uncertainty of its impact. None of us sitting at this table, or you up on the dais, or the General Accounting Office or the Office of Personnel Management, truly know what the impact of this legislation is going to be. Based on the wholesale criticism the Federal work force has taken in recent years, based on the so-called pay gap, there is suspicion that there could be a wholesale exodus of Federal employees if this type of legislation is indeed passed.

On the other hand, there might be a trickle of people. We do not really know. The fact of the matter is that no one knows what the impact is going to be. It reminds you of that show, "Let's Make a Deal"—I mean, what is behind Door Number One? If this legislation is passed, we are about to find out. And once that door is opened, will it be a trickle of people leaving, or will it be hundreds of thousands of people leaving the Federal work force?

That is truly the problem here. We cannot as an organization representing our members oppose early-out retirement. Indeed, it would not be fair to employees who have had to put up with the policies of the Reagan Administration over these years to keep them in the Federal Government if they want to get out. On the other hand, if they do want to get out, it would be disastrous if we could not replace those people, particularly if the result would be an exodus of hundreds of thousands of employees.

So therefore, while we can support the early-out provisions of S. 42, once again, as we did a couple of years ago, we would have to strenuously oppose the hiring freeze included in the bill.

Thank you.

Chairman **Glenn**. Thank you very much.

Mr. Bruce Moyer is Legislative Counsel for the Federal Managers Association.

TESTIMONY OF BRUCE MOYER, LEGISLATIVE COUNSEL, FEDERAL MANAGERS ASSOCIATION

Mr. **Moyer**. Thank you, Mr. Chairman. I would ask that our full statement be entered into the record,[2] and I would be pleased to summarize our statement.

Chairman **Glenn**. It will be included in its entirety.

Mr. **Moyer**. Mr. Chairman, Senator, thank you for inviting the Federal Managers Association to offer its comments today regarding S. 42. While the Federal Managers Association supports the principle of early retirement, an early-out window coupled with a three-year hiring freeze, in our opinion, is unworkable and potentially devastating to the effectiveness of the Federal Government.

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[1] See p. 112.

[2] See p. 120.

We are opposed to S. 42 because of the negative impact a hiring freeze will have upon the capacity of departments and agencies to carry out their statutory mandates.

The release of a sizeable, highly skilled portion of the Federal work force through an early-out window, coupled with a hiring freeze, will irrationally disrupt the operation of agency programs and the provision of necessary Government services.

We believe that relatively older, more senior employees and managers are most likely to retire under the bill. The loss of the considerable skills, experience and institutional memory belonging to these members of the Federal work force will severely strain the Government's continuity and effectiveness. This may be exactly the wrong approach at this time, in light of the work force demographic trends projected by the recent Department of Labor Work Force 2000 Report. That report projects predict a shrinking, less educated, less skilled pool of entry-level employees for the public and private sector to draw upon.

For the American public, the results will be equally disappointing. Although the bill professes to achieve deficit reduction through cutting the Government's payroll, it is unlikely that deficit savings will occur. Departments and agencies without sufficient employees to perform their missions, and up against their personnel ceilings, will inevitably contract out to the greatest extent possible within the limitations of the law.

The Federal Managers Association supports the principle of early retirement because of the manner in which it accommodates the personal plans of Federal employees who desire to retire at an earlier age. In addition, we believe the opportunity for an employee to retire early when he faces a cutback budget-induced reduction-in-force is certainly preferable to a RIF.

Early retirement is naturally attractive to many of our members of the FMA who would be eligible to take advantage of the retirement window created by the bill. However, our members recognize as a matter of public policy the downside impact that their departures in the context of a hiring freeze would cause to the Federal Government and its citizens. It is for this reason that we oppose S. 42 in its current form.

Recently, the Office of Personnel Management, on an agency-specific basis, authorized 32 civilian units within the Defense Department, the Small Business Administration, and a portion of the National Labor Relations Board to offer early-outs in lieu of RIFs because of budget constraints. We believe the Committee, before approving early-out on a Government-wide basis, should examine the benefit and impact of this experience and the extent to which productivity advancements and other concerns raised today are promoted.

An agency-specific approach coupled with some of the most appealing features of S. 42 would contribute to a more prudent and effective use of early-out in the future.

Mr. Chairman, thank you for this opportunity today.

Chairman GLENN. Thank you very much.

Mr. Robert Tobias is President of the National Treasury Employees Union.

Mr. Tobias?

TESTIMONY OF ROBERT M. TOBIAS, PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION

Mr. TOBIAS. Thank you very much, Mr. Chairman.

I, like my colleagues, have a full statement.[1] I think that when we look at this bill, we should analyze it in terms of its goals and objectives. I think the goals and objectives are pretty clear, and those are to increase efficiency and to increase the economy of Government services. There is no question about that, and there is no question that the Federal work force has to be concerned with efficiency and doing its work better.

The real question is whether we encourage efficiency and better working procedures, or do we start with the idea that there are too many people, and we must reduce the number of employees, and efficiency will therefore follow.

There are therefore two underlying assumptions in this bill—one, that there are too many employees in the Federal Government today, and therefore the largest possible number should be encouraged to leave, with very restricted authority to fill in behind them.

The second assumption is that fewer employees will guarantee more productivity and more cost savings to the taxpayer. I believe that both of these assumptions are in grave doubt.

First, there is absolutely no verifiable evidence that across-the-board in every agency, we have too many employees. We have some anecdotal evidence offered in this testimony today, but I think there is an equal amount of anecdotal evidence which says that reducing the number of employees in a particular Government agency has a devastating impact on the way it does its work. I think one of the primary examples of that was the Internal Revenue Service in 1985. The current Administration reduced the number of IRS employees successfully from 1981 to 1985 and then, in 1985, there weren't enough people to process the tax returns, and we had a disastrous tax filing season in 1985.

I think much of the problem about the amount of drugs coming into the United States can be attributed to the fact that this Administration since 1981, in every single year except this year, has proposed to reduce the number of inspectors on the border who are responsible for interdicting drugs, and as a result the amount of drugs coming into the United States has soared.

So to say that reducing the number of employees will lead to more efficiency in carrying out the mission of the Government I think is not necessarily accurate.

And to also say that a reduced number of employees will automatically be able to carry out the mission that Congress has assigned them is equally false. I think we have to start with the idea that the Federal Government over the last ten years, based on measures from the Bureau of Labor Statistics, show that productivity in the Federal work force has increased on the average of 1.3 percent every year on an annual basis. In contrast, the private sector has increased at .8 percent. So productivity has been improving in the Federal Government over the last ten years much better than it has in the private sector.

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[1] See p. 123.

Secondly, I think that every study that has ever been conducted of the severe reductions that have taken place—I just read an article last night in Newsweek about the 2.1 million people who have lost their jobs over the last eight years and what impact that has had on those who remain, and it has been devastating. So to assume that those who remain will be able to carry out the task, I think, is highly speculative at best.

And finally, I think if you restrict your evaluative criteria solely to productivity, you are missing the other factor that should be considered, and that is the quality of the work product. It is not only how many widgets you put out; it is how well you produce them. And to assume that a significant reduction in the Federal work force would not only lead to more widgets, but higher quality widgets, is an assumption with which I disagree.

For the reasons that are stated in the testimony together with a questioning of the basic assumptions of the Act, we in NTEU urge that this bill not be enacted as it is presently drafted.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you, Mr. Tobias.

Mr. Shaw, you represent some of our longest-standing, most experienced Federal personnel. You mentioned the morale problem if people are forced out. It links in with Mr. Tobias' comments, too, that this is a wrong assumption that we just flat have too many employees.

I guess my question would be in the face of personnel shortages which might exist, how are agencies going to compensate for that if they are not permitted to hire?

Mr. SHAW. I wish I knew the answer to that, Senator, and I do not think I do.

On the other hand, I have got to counter on behalf of the people that we do try to speak for that there are a lot of people who are so angry and are so frustrated with their treatment that I think it becomes demoralizing to a lot of others. And their ability to motivate and their ability to attract and create a workplace atmosphere that is productive can sometimes be in question.

Now, most of them rise above that on a day-to-day-basis, but I do not know how much longer that is going to go on when, again, the way we are keeping the people we need in Government today is by tying them in with a retirement system which will make them paupers if they leave. They literally will lose everything that they have put in the system if they leave before they retire; so they stay, but they stay unhappily. And I just do not think it is productive for the Government, and I do not think it is productive for the people that they lead, or for themselves personally.

Chairman GLENN. The people you represent are reasonably senior people serving in Government.

Mr. SHAW. Yes, sir, they are the senior career people in Government.

Chairman GLENN. Yes. I am a little bit concerned about what would happen to what we call for lack of better words, I guess, institutional memory if a group like this moves out. That makes a lot of advancement for younger people perhaps moving up and an overall lower total Government employment rate saves some money, of course—but having some experience in whatever job you are in is a mighty big factor in applying judgment, and I guess that concerns me as much as anything else, particularly in places like CIA, NSA, NASA, some of the places where we are trying to keep good people in some of those jobs, it makes it a little difficult.

Mr. **Shaw**. Customs, Internal Revenue Service, as Bob pointed out. That is why we are schizophrenic on this. Literally, many of the people are, as I said, unhappy and frustrated. But I think that there really, seriously is a higher calling for many of these people, and that is why we estimate that only 10 percent of them would leave. But the other ones who stayed would be staying because it was voluntary, not because they felt like they did not have any choice.

So from a mental health standpoint and the standpoint of these people being motivated, I think it could be good. From the standpoint of the danger to the Government, I think it is very real, and that is why on balance we come down and say this could really wreak havoc.

Chairman **Glenn**. Mr. Moyer, I guess I disagreed with one part of your statement and strongly agreed with another part of your statement. The first one was you said you support this on behalf of the people you represent because a lot of them have personal plans to retire. I do not think that is a good enough reason. We do not hire people just so they can retire. They get some experience in Government, they are valued employees, or they are not valued employees, but we do not set up programs just for the convenience of their retirement. So I would disagree with that part of it.

The other part you mentioned, though, that I would like to have any comment you have on, is the Office of Personnel Management, you said, has authorized an experiment in early-out. What is the status of that; when will we know a little bit more about how it has worked; what are the number of employees involved? Could you give us a little more information on that for the record?

Mr. **Moyer**. I am afraid I cannot give you the specificity of information you are asking for, Mr. Chairman. I wish the representative from OPM were still here to provide you that information.

Chairman **Glenn**. Okay. Does staff have information on that. [Conferring with staff.] Okay. Don't bother, Mr. Moyer. We will get that directly from OPM.

Mr. **Moyer**. Okay.

Chairman **Glenn**. I was not aware of that and the extent of it, and it might give us some very good experience to see how it works out. I do not know whether it fits in with what you are proposing, Bill, but it might be something we would want to look at.

Mr. **Moyer**. I might comment, Mr. Chairman, in terms of the impact of the OPM experience and similar experiences, an earlier witness from the State of Utah commented upon the extent to which employees who were eligible to retire took advantage of that opportunity. And while witnesses today have projected 10 percent of those eligible taking advantage of it, it was interesting to note that the witness from the State of Utah mentioned that in the context of their program, 62 percent of those eligible did early-out. That is a somewhat frightening prospect—of over half of those eligible walking out, particularly in light of the concerns of institutional memory that you raised.

Mr. SHAW. Could I correct that, please, because I would hate to leave that on the record.

Chairman GLENN. Yes.

Mr. SHAW. What we said was we estimate we would lose 10 percent of the members of the Senior Executive Service. Approximately 20 percent of the Senior Executive Service would be eligible who are not now eligible to retire, and we believe about half of them would go, which is what the General Accounting Office projected, also.

Chairman GLENN. Okay.

Mr. Gusky, you say in your testimony that NFFE would prefer—and I quote—"to see early-out authority become an automatic response to any reduction-in-force rather than a permissive response dependent on the whims of OPM."

You might elaborate a little bit on that for us. I feel that what you are getting over into is saying if we are going to do this, let's do it by attrition, but I am not sure in a situation like that, just for everybody, you would automatically give some of the benefits that would entice people to retire, at a time when what you are looking at is basically a RIF.

Mr. GUSKY. What we are referring to specifically there, Senator, is the fact that in some instances where there are reductions-in-force, early-out retirement is not granted in those situations, and the employees just lose their jobs who do not have the opportunity to take early-out. We think that OPM should not have so much authority in that area to approve or disapprove early-out retirement when there is a reduction-in-force going on.

Example—apparently——

Chairman GLENN. Oh, I see. I thought you meant that when there is a RIF in place, that those people would then be eligible for early-out benefits.

Mr. GUSKY. Well, what we would like, if there is a reduction-in-force, is that some type of authority would be automatically granted when there is a reduction-in-force going on. But sometimes this is not the case. Last year, for example, at our Phoenix Indian High School, approximately 60 people were RIFfed, and yet no early-out authority was approved for that agency; these people just lost their jobs. So that is a real problem.

Chairman GLENN. Mr. Tobias, you very properly bring up some areas that I think are very interesting, and you used the IRS example, the drug example, and so on. I have thought about those, also. I do not know if this legislation would happen to go through, whether we would need some sort of limitation in areas like that, where there are certain areas that would not apply. For instance, I think the figures are that every IRS agent gets back in the average year in Federal revenue something like five times the expense of his salary and support and so on; I think that is the figure I heard not too long ago. So obviously, at least up to a certain point, it is productive for us to have more people there, not less.

Now, obviously, you cannot take 20 million IRS inspectors and expect them all to come out five-to-one. Somewhere, you level off in that kind of additional productivity of people, or the return that you get on investing in those people.

I was glad you brought up the drug thing, because that has been one of the more vexing things, that while everybody downtown says, "Just say no, just say no," they have all said "no" through the years to funds for this stuff, too. So there has been so much semantics in that. That is a separate issue, but anyway, I am very much keyed in on that one.

Would you expand a little on the fact that you cannot use productivity as the only measure?

Mr. **Tobias**. I think what we are seeing in the literature now, Mr. Chairman, is that particularly in service industries, productivity is not the only measure, but the quality of the product produced is an equally important measure. And it is not enough just to look at how many cars are produced, but the quality of the automobile that is produced is equally important.

I do not believe—I really, seriously don't believe—that by cutting the number of employees, you automatically increase the quality of the product that is produced for the taxpayer.

Chairman **Glenn**. I agree.

Mr. **Tobias**. And there is no evidence to support that assumption.

Chairman **Glenn**. Let me just ask one question and throw it out to any of you here. Have you known big business or any major industrial groups that gave an early-out program as a way of reducing, and what was the experience there, and what happened to them, and how did they control it? Does anybody have any observations in that line?

Mr. **Tobias**. There is considerable experience over the last 8, 10 years with companies reducing the number of employees, AT&T being a primary example of reducing the number of its employees through early-out. And they have gone through hell with the people who have remained, trying to sort out who should do the job, trying to recapture the institutional memory, trying to reorganize to best utilize the remaining skills. It has not been a good experience.

Chairman **Glenn**. Well, let's say you have a company, though, that is bloated. Let's say you have gotten too many people, and your business has gone down a little bit, and you do have to cut back. What is the best way to do it?

Mr. **Tobias**. Well, I think that the best way to do that is to make some hard management decisions. But I do not think you can make a management decision that of the 2.2 million Federal employees, that every, single agency is overstaffed. There may be some agencies that are, but certainly not every one of them.

Mr. **Shaw**. Senator, I agree with Mr. Tobias that you make a hard management decision, and one of the better ways to make that management decision is to select the individuals that you are going to offer it to, and then offer it to them. And then, if they do not want to go, you select someone else and offer it to that person that is comparable so that you can fill the job that needs to be filled. That targeting is probably the better way, and I think that the successful programs in private industry that I have read about—and I don't know anything specifically about them—but anecdotally read about, that is exactly how they have done it.

Chairman **Glenn**. Yes. One of the difficulties with early-out in some respects sometimes is that the very people you should be keeping and want to keep, your best employees, are the ones who will have the most opportunity elsewhere, and they are liable to bug out and leave. And I will not say that in any Government situation you would be left with the culls, but let's say you would like to keep some of the better people there, rather than seeing them leave.

Mr. GUSKY. Well, the gentleman who proceeded us indicated that if you work with a short staff, you will find out very quickly who your stars are and who your bad workers are; but you also may find out too late that your stars left you.

Chairman GLENN. My time is up.

Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

I will just make a couple of observations. There are any number of large companies that have used early-out not once but several times, which is an indication that they think it is an effective procedure, and they have done it by giving the option to the employees themselves.

On the question of quality, I think we are all in agreement it is not just a question of production, it is a question of quality. But I think the factor that we discussed at considerable length earlier in the afternoon, Mr. Chairman, was that modern technology in many cases makes it possible to increase productivity and to do a better job. We specifically talked about inventory control and how the Japanese have outflanked us by their modern inventory techniques.

So there are opportunities here. The one thing that I keep hearing here, and I think it raises a valid point of some concern, is how many will withdraw and what will be the impact.

I wonder, Mr. Gusky, as well as any others, we could, of course, put a limit on how many could leave in a given year, so that if the worst of all happened and you lost too many, the Administration, whoever that may be, could control that. Would that help you support this legislation?

Mr. GUSKY. Well, limitation—I can hear the cries now, that some people would be allowed to retire, some people would not be allowed to retire. The whole concept of blanket early retirement—Senator Roth, you were talking about technology and how technology can make up a lot in the way of productivity. But that makes the assumption that you are selectively cutting back on certain areas of the work force. If you see an area where technology can help out, and then you want to address that certain area in the area of early retirement, that is one thing; but the very areas where technology may want to help you increase productivity may not be the areas that will experience a lot of early-out retirements.

On the other hand, in the area where technology can help, in the legal profession or some professional area, and everybody retires on you—then, what do you do?

Senator ROTH. We might be better off with less lawyers, but I will not expand on that.

Mr. GUSKY. Well, I can agree with you, but there are a lot of lawyers at this table, so I have to be careful.

I just do not think a limitation would be the answer, either, to be perfectly honest with you.

Senator Roth. Let me just make one further observation, talking about IRS agents. Time and again, people talk about hiring more agents, getting more revenue. Senator Pryor, who just left, is the author of a Taxpayers' Bill of Rights, so we are going to have more employees to help protect the employees from the IRS, while at the same time we are going to be hiring more agents to exact more income. It is sort of a typical Congressional solution.

Mr. Chairman, I have no further questions. I thank the gentlemen for being here today.

Chairman Glenn. Thank you.

I understand OPM testified earlier about doing some of these things by attrition, and I would like some of your opinions on that. We have about 2 million civil service employees and then we have about another million or close to it, in the Post Office, I believe, a little under a million there. So we have overall about 3 million Federal employees. I do not know what percent of those turn over every year. Would it be 10 percent or 15 percent? Do you know?

Mr. Shaw. The figure I have heard, Senator, is about 400,000 new Federal employees a year, whatever percentage that is; that is about 15 to 20 percent.

Mr. Gusky. The percentage is surprisingly high, a very high number.

Mr. Shaw. Most of the turnover, though, comes among those with five or less years of service, so that when they reach five years of service, a much higher percentage stay. It is the initial five-year ones who turn over at a higher rate.

Chairman Glenn. I think that is probably true in most companies, too, isn't it? That would be true not only in the civil service, I would think.

Mr. Shaw. Yes.

Chairman Glenn. Of course, if most of your turnover is there, your most experienced people, then, would still be staying.

Mr. Shaw. Yes.

Chairman Glenn. Okay. Thank you, gentlemen. Do you have any additional statements you wish to make before we recess?

Mr. Shaw. No, sir. Thank you, Mr. Chairman.

Mr. Gusky. Thank you, Mr. Chairman.

Mr. Moyer. Thank you, Mr. Chairman.

Mr. Tobias. Thank you very much.

Chairman Glenn. We would like to keep the hearing record open, and if there are additional questions from other Senators or staff, we would submit them to you, and we would appreciate an early reply to those so that they can be included in the hearing record.

Thank you very much. The hearing will stand in recess subject to the call of the Chairman.

[Whereupon, at 4:30 p.m., the Committee was recessed to reconvene at the call of the Chair.]

100TH CONGRESS
1ST SESSION

S. 42

To amend title 5, United States Code, to establish an optional early retirement program for Federal Government employees, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 6, 1987

Mr. ROTH introduced the following bill; which was read twice and referred to the Committee on Governmental Affairs

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A BILL

To amend title 5, United States Code, to establish an optional early retirement program for Federal Government employees, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Federal Employees' Optional Early Retirement Act of 1987".

SEC. 2. PURPOSES.

The purposes of this Act are—

(1) to reduce Federal Government civilian payrolls in an orderly and voluntary manner;

(2) to accommodate the personal plans of certain Federal Government employees who desire to retire but have not satisfied the applicable age and service requirements;

(3) to allow current Federal Government employees to retire early in order to avoid possible adverse effects of Federal budgetary conditions; and

(4) to provide increased job protection and career opportunities for Federal Government employees, especially women, members of minority groups, and young workers.

SEC. 3. TEMPORARY VOLUNTARY EARLY RETIREMENT AUTHORITY.

Section 8336 of title 5, United States Code, is amended—

(1) by redesignating subsection (m) as subsection (n); and

(2) by inserting after subsection (l) the following new subsection (m):

"(m)(1) Except as provided in paragraph (2) of this subsection, an employee who—

"(A) during the 90-day period beginning 60 days after the date of the enactment of the Federal Employees' Optional Early Retirement Act of 1987, is separated from the service, except by removal for cause on charges of misconduct or delinquency—

"(i) after completing 25 years of service;

"(ii) after becoming 50 years of age and completing 20 years of service;

"(iii) after becoming 55 years of age and completing 15 years of service; or

"(iv) after becoming 57 years of age and completing 5 years of service; and

"(B) is not entitled to an annuity under section 8337 of this title or subsection (a), (b), (d), (f), (h), or (j) of this section,

is entitled to an annuity.

"(2) Paragraph (1) of this subsection shall not apply to a bankruptcy judge, a judge of the United States Court of Military Appeals, or any law enforcement officer, firefighter, or air traffic controller who is not in a supervisory or administrative position, as determined by the Director of the Office of Personnel Management.".

SEC. 4. COMPUTATION OF ANNUITY.

The first sentence of section 8339(h) of title 5, United States Code, is amended by striking out "or (j)" and inserting in lieu thereof ", (j), or (m)".

SEC. 5. APPLICATION OF AMENDMENTS TO OTHER FEDERAL GOVERNMENT RETIREMENT SYSTEMS.

The President shall extend the application of the amendments made by sections 3 and 4—

(1) to participants in the Central Intelligence Agency Retirement and Disability System and their survivors under section 292 of the Central Intelligence Agency Retirement Act of 1964 for Certain Employees (50 U.S.C. 403 note);

(2) to participants in the Foreign Service Retirement and Disability System and their survivors under section 827 of the Foreign Service Act of 1980 (94 Stat. 2124; 22 U.S.C. 4067); and

(3) if determined appropriate by the President, in like manner to employees of the Executive branch who are participants in any other Federal Government retirement system and their survivors.

SEC. 6. EXEMPTION FOR ESSENTIAL OCCUPATIONAL CATEGORIES.

(a) IN GENERAL.—An officer or employee in the Executive branch retiring under section 8336(m) of title 5, United States Code (as added by section 3 of this Act), or pursuant to section 5 of this Act is not entitled to an annuity under or pursuant to such section if, immediately before the retirement, the officer or employee—

(1) is serving in a position in an exempt occupational category,

(2) is working on an exempt project, or

(3) is serving in a position in an exempt location, designated under subsection (b).

(b) EXEMPTION AUTHORITY.—The President or his designee may, for the purposes of this section, designate—

(1) as an exempt occupational category any occupational category in an Executive agency that is essential for the continuous performance of a critical mission of the Executive agency;

(2) as an exempt project any project carried out by an Executive agency that is an essential project in the interests of the Federal Government; and

(3) as an exempt location any location at which a responsibility of an Executive agency is carried out if, because of the undesirability of such location, it is difficult to fill employee vacancies at the location by voluntary transfers of other employees.

(c) LIMITATIONS ON AUTHORITY.—(1) A designation under subsection (b) shall be effective for the purposes of this section only if it is made in writing not later than the day before the optional early retirement period commences.

(2)(A) The authority provided in subsection (b) may not be exercised in a manner that precludes more than 25 percent of the eligible officers and employees in an Executive agency from being entitled to an annuity under section 8336(m) of title 5, United States Code, or pursuant to section 5 of this Act.

(B) For the purpose of subparagraph (A), the term "eligible officers and employees" means the officers and employees of the Federal Government who, without regard to subsection (a), would be entitled, upon separation from Federal Government employment, to an annuity under section 8336(m) of title 5, United States Code, or pursuant to section 5 of this Act.

SEC. 7. HOLDOVER OF ESSENTIAL EMPLOYEES.

(a) IN GENERAL.—(1) An officer or employee in the Executive branch is not entitled to an annuity under section 8336(m) of title 5, United States Code (as added by section 3(2) of this Act), or pursuant to section 5 of this Act if, immediately before separating from Federal Government employment, the officer or employee is serving as an essential employee designated under subsection (b) of this section.

(2) An officer or employee of an Executive agency who—

(A) separates from Federal Government employment immediately upon the termination of a designation under subsection (b); and

(B) during the optional early retirement period, has given such Executive agency appropriate notice of his intention to separate from Federal Government employment under section 8336(m) of title 5, United States Code, or pursuant to section 5 of this Act, as the case may be,

shall be entitled to an annuity under or pursuant to such section notwithstanding that the separation becomes effective after the expiration of such period.

(b) HOLDOVER AUTHORITY.—The head of an Executive agency may designate, for the purposes of this section, any officer or employee in such Executive agency as essential for (1) the continuous progress of a critical project under the responsibility of the Executive agency, or (2) the continuous performance of a critical responsibility assigned to such officer or employee by the Executive agency.

(c) LIMITATION ON AUTHORITY.—A designation under subsection (b) may not be effective for more than 6 months.

SEC. 8. LIMITATION ON REPLACEMENT OF RETIREES.

(a) IN GENERAL.—Notwithstanding any other provision of law, except as provided in subsection (b), (c), (d), (e), or (f), an appointment may not be made to a position of civilian employment in the Executive branch on any day during the hiring limitation period, unless the full-time employee equivalent of the total number of civilian employees in the Executive branch (other than the United States Postal Service and the Postal Rate Commission) after such appointment on such day does not exceed the maximum authorized full-time employee equivalent number determined for such day, as provided in subsection (h)(2).

(b) WAIVER.—(1) The President or his designee may waive the application of subsection (a) in the case of a position or a category of positions in the Executive branch if the President (or his designee) determines that—

(A) the position or positions are essential for the performance of an Executive responsibility; or

(B) the estimated aggregate cost of such position or positions during the hiring limitation period does not exceed the estimated aggregate amount of user fees that will be collected by the Federal Government for services performed under a Federal Government program or programs during such period by an employee in such position or employees in such positions.

(2) The President (or his designee) may not exercise the waiver authority provided in paragraph (1) in a manner that results in increased pay and other personnel costs in any Executive agency that exceed the amount of the cost savings which result from the implementation of this Act and the amendments made by this Act in the case of such Executive agency.

(c) INAPPLICABILITY OF LIMITATION TO THE POSTAL SERVICE AND THE POSTAL RATE COMMISSION.—Subsection (a) does not apply to positions in the United States Postal Service or under the Postal Rate Commission.

(d) INAPPLICABILITY OF LIMITATION TO CERTAIN REINSTATEMENTS.—Subsection (a) does not apply in the case of an individual who is reinstated to a position of employment the individual formerly held in the Executive branch by order of a court of the United States having jurisdiction to issue such order or by reason of an action of the Merit Systems Protection Board or the Special Counsel of the Merit Systems Protection Board authorized by law.

(e) INAPPLICABILITY OF LIMITATION TO CERTAIN TRANSFERS.—Subsection (a) does not prohibit the transfer of employees in the Executive branch for the purpose of filling a vacancy in an Executive branch position.

(f) INAPPLICABILITY OF LIMITATION DURING A PERIOD OF WAR OR NATIONAL EMERGENCY.—Subsection (a) shall not apply during a period of war declared by the Congress or a period of national emergency declared by the Congress or the President.

(g) LIMITATION ON PROCUREMENT OF PERSONAL SERVICES.—The President shall take appropriate action to ensure that there is no increase in the procurement of personal services by contract by reason of the enactment of this section except in cases in which it is to the financial advantage of the Federal Government to increase the procurement of such services.

(h) DEFINITIONS.—For the purposes of this section—

(1) the term "employee" has the same meaning as provided in section 2105 of title 5, United States Code;

(2) the term "maximum authorized full-time employee equivalent number" means the excess of—

(A) the full-time employee equivalent number that describes the total number of civilian employees employed in positions in the Executive branch (other than the United States Postal Service and the Postal Rate Commission) on the day before the optional early retirement period commences, over

(B) the full-time employee equivalent number that describes the total number of—

(i) such employees who, on or before the day for which the maximum authorized number is computed, have retired during such period entitled to an annuity under subchapter III of chapter 83 of title 5, United States Code, or any other Federal Government retirement system for officers and employees of the Federal Government; and

(ii) such employees who, on or before such day, have retired after such period entitled to such an annuity as provided in section 7(a)(2) of this Act; and

(3) the term "hiring limitation period" means the period beginning on the date 60 days after the date of the enactment of this Act and ending at the end of the third fiscal year which begins on or after the first day of such period.

SEC. 9. REGULATIONS.

The President or his designee may prescribe regulations to carry out sections 6, 7, and 8.

SEC. 10. LIMITATION ON USE OF SAVINGS.

(a) In General.—(1) None of the budget authority and outlays saved in any fiscal year by reason of the reduced pay and other personnel costs resulting from the implementation of this Act and the amendments made by this Act may be obligated or expended for any purpose.

(2) The total amount of budget authority and outlays saved in any fiscal year (as described in paragraph (1)) shall be credited against any amount of pay and other personnel costs required to be sequestered in such fiscal year under the

Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177).

(b) AUDITS.—The Comptroller General of the United States may audit the records of any agency of the Federal Government to determine the level of compliance with the requirements of subsection (a).

(c) NOTICE OF NONCOMPLIANCE.—The Comptroller General of the United States shall notify Congress, in writing, of each noncompliance with the requirements of subsection (a).

SEC. 11. PROGRAM REPORT.

(a) IN GENERAL.—Not later than one year after the first day of the optional early retirement period, the Director of the Office of Personnel Management shall transmit to Congress a report containing an evaluation of the optional early retirement program and the limitation on replacement of retirees provided in this Act.

(b) CONTENTS OF REPORT.—The report under subsection (a) shall include the following matters:

(1) The number of employees who have retired under the optional early retirement program, stated by employing agency, by age group of the retirees, and by grade or other position classification of the retirees.

(2) The number and description of the exempt occupational categories, projects, and locations designat-

ed under section 6(b) and the reasons such categories, projects, and locations have been so designated.

(3) The number of employees who have been designated as essential employees under section 7(b) and the reasons such employees have been so designated.

(4) The number of employees appointed under the waiver authority provided in section 8(b) (stated as a full-time employee equivalent number) and the reasons for the appointments.

(5) The amount of the savings in pay and other personnel costs that have resulted, before the date of the report, from the implementation of this Act and the amendments made by this Act.

(c) ADMINISTRATIVE PROVISION.—The Director of the Office of Personnel Management may obtain from any agency of the Federal Government such information as the Director determines necessary to prepare the report required by subsection (a).

SEC. 12. DEFINITIONS.

For purposes of this Act—

(1) the term "Executive agency" has the same meaning provided in section 105 of title 5, United States Code, and includes the military departments specified in section 102, but does not include—

(A) the United States Postal Service; and

(B) the Postal Rate Commission; and

(2) the term "optional early retirement period" means the 90-day period provided in section 8336(m) of title 5, United States Code, or pursuant to section 5 of this Act.

SEC. 13. REVISIONS IN BUDGET ALLOCATIONS AND AGGREGATES.

(a) REPORTS BY COMMITTEES ON THE BUDGET.—Upon the enactment of this Act, the Committees on the Budget of the Senate and the House of Representatives shall report to their respective Houses revised allocations, pursuant to section 302(a) of the Congressional Budget Act of 1974, and revised budget aggregates to carry out this Act and the amendments made by this Act.

(b) REPORTS BY OTHER COMMITTEES OF CONGRESS.—Upon the reporting of revised allocations under subsection (a), the appropriate committees of the Senate and the House of Representatives shall report revised allocations, pursuant to section 302(b) of the Congressional Budget Act of 1974, to carry out this Act and the amendments made by this Act.

(c) TREATMENT OF REPORTED REVISIONS.—Revised allocations and budget aggregates reported under this section shall be considered for the purposes of the Congressional Budget Act of 1974 as aggregates contained in and allocations pursuant to S. Con. Res. 120 (99th Congress, Second Session), the concurrent resolution on the budget for fiscal year 1987.

STATEMENT OF
CURTIS J. SMITH
ASSOCIATE DIRECTOR FOR CAREER ENTRY
OFFICE OF PERSONNEL MANAGEMENT

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

AT A HEARING ON

S. 42
"FEDERAL EMPLOYEES' OPTIONAL EARLY
RETIREMENT ACT OF 1987"

APRIL 21, 1988

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I APPRECIATE THE OPPORTUNITY TO BE HERE TODAY TO DISCUSS THE OFFICE OF PERSONNEL MANAGEMENT'S CONCERNS ABOUT S. 42, THE "FEDERAL EMPLOYEES' OPTIONAL EARLY RETIREMENT ACT OF 1987."

S. 42 WOULD PROVIDE A ONE-TIME, GOVERNMENTWIDE OPPORTUNITY FOR FEDERAL CIVILIAN EMPLOYEES TO RETIRE UNDER RELAXED AGE AND LENGTH-OF-SERVICE REQUIREMENTS. THE GOAL OF THE BILL IS TO ACHIEVE NECESSARY WORK FORCE REDUCTIONS THROUGH VOLUNTARY RETIREMENTS RATHER THAN THROUGH MORE PAINFUL MEASURES, SUCH AS REDUCTIONS IN FORCE.

WITH CERTAIN EXCEPTIONS, THE SPECIAL EARLY-OUT PROGRAM WOULD BE AVAILABLE TO EMPLOYEES WHO MEET THE SAME AGE AND SERVICE

REQUIREMENTS THAT WE USE IN THE EXISTING EARLY VOLUNTARY AND EARLY INVOLUNTARY RETIREMENT PROGRAMS, NAMELY, 20 YEARS OF SERVICE AND AGE 50, OR 25 YEARS OF SERVICE AND ANY AGE. ADDITIONALLY, S. 42 WOULD EXTEND EARLY RETIREMENT ELIGIBILITY TO TWO NEW CATEGORIES: 15 YEARS OF SERVICE AND AGE 55, AND 5 YEARS OF SERVICE AND AGE 57. UNDER THE BILL, EMPLOYEES IN CERTAIN SHORTAGE OCCUPATIONS WOULD BE INELIGIBLE, AND THE BILL WOULD ALSO PERMIT THE PRESIDENT, OR HIS DESIGNEE, TO EXCLUDE UP TO 25 PERCENT OF ANY AGENCY'S ELIGIBLE CANDIDATES WHO ARE DEEMED ESSENTIAL TO AGENCY MISSION. TO ENSURE REDUCTION OF PERSONNEL COSTS, S. 42 WOULD IMPOSE A 3-YEAR FREEZE ON REPLACING MOST EMPLOYEES WHO RETIRE DURING THE 90-DAY EARLY RETIREMENT OPPORTUNITY, WHETHER THEY RETIRE UNDER THE BILL'S SPECIAL PROVISIONS OR UNDER THE NORMAL RETIREMENT RULES.

S. 42 OFFERS SEVERAL IMPROVEMENTS OVER A SIMILAR PROPOSAL IN THE LAST CONGRESS WHICH FEATURED A 6-MONTH RATHER THAN 3-MONTH EARLY RETIREMENT PERIOD, A 5-YEAR FREEZE ON REPLACEMENT HIRING, AND NO PROVISIONS FOR EXEMPTING CRITICALLY IMPORTANT EMPLOYEES IN EACH AGENCY NOR FOR DEFERRING THEIR DEPARTURE. DESPITE THESE CHANGES, HOWEVER, OPM BELIEVES THAT THE PROPOSED GOVERNMENTWIDE EARLY RETIREMENT PROGRAM WOULD BE VERY COUNTERPRODUCTIVE IN TERMS OF EFFICIENT PERSONNEL MANAGEMENT AND EFFECTIVE REDUCTION OF GOVERNMENT OUTLAYS.

FIRST, I WANT TO EMPHASIZE THAT THE EXECUTIVE BRANCH IS VERY CONCERNED THAT A GOVERNMENTWIDE EARLY RETIREMENT OPPORTUNITY COULD LEAD TO EXCESSIVE LOSSES OF OUR MOST VALUABLE EMPLOYEES. UNDER THE PRESIDENT'S BUDGET, GOVERNMENTWIDE CIVILIAN EMPLOYMENT AMONG AGENCIES OTHER THAN THE DEPARTMENT OF DEFENSE AND THE POSTAL SERVICE WILL BE SUBJECT TO A NET REDUCTION OF ABOUT 1000 EMPLOYEES IN FISCAL YEAR 1988--A GOAL THAT COULD EASILY BE ACHIEVED BY ATTRITION RATHER THAN REDUCTION IN FORCE. AT THE SAME TIME, SEVERAL DEPARTMENTS, INCLUDING JUSTICE, TREASURY, AND TRANSPORTATION, AS WELL AS THE NATIONAL AERONAUTICS AND SPACE ADMINISTRATION, AND VARIOUS SMALLER AGENCIES, ARE SCHEDULED TO EXPERIENCE SIGNIFICANT INCREASES IN PERSONNEL IN RESPONSE TO CHANGES IN AGENCY MISSION.

IF ONLY 15 PERCENT OF THOSE ELIGIBLE WERE TO RETIRE IN A GOVERNMENTWIDE "EARLY OUT," THE WORK FORCE WOULD DECLINE BY SOME 50,000, AND THAT NUMBER MIGHT GO MUCH HIGHER. INCLUDED IN THIS EXODUS WOULD BE MANY OF OUR MOST VALUABLE AND DIFFICULT TO REPLACE EMPLOYEES, EVEN IN AGENCIES AND PROGRAMS THAT ARE SLATED TO REMAIN FULLY FUNDED OR TO GROW. THIS COULD HAVE A DEVASTATING EFFECT ON THE ABILITY OF FEDERAL MANAGERS TO MANAGE, AND COULD GRAVELY HARM THE EFFICIENCY AND EFFECTIVENESS OF GOVERNMENT.

DEPARTMENT OF DEFENSE ACTIVITIES, ON THE OTHER HAND, ARE BUDGETED FOR CIVILIAN EMPLOYMENT REDUCTIONS OF ABOUT 12,000 IN 1988 DUE TO FISCAL CONSTRAINTS. AGENCIES IN THIS SITUATION, THOUGH, MAY REQUEST OPM APPROVAL TO OFFER EARLY OPTIONAL RETIREMENT TO EMPLOYEES IN THE IMPACTED ORGANIZATIONS UNDER EXISTING LAW. AS OF THE BEGINNING OF APRIL, OPM HAD APPROVED 37 REQUESTS FOR EARLY RETIREMENT AUTHORITY IN FISCAL YEAR 1988--OF WHICH 32 APPROVALS INVOLVED DEFENSE INSTALLATIONS. IF PAST EXPERIENCE IS ANY INDICATOR, WE CAN EXPECT THAT MORE THAN 11,000 OF THE NEARLY 62,000 EMPLOYEES ELIGIBLE FOR EARLY RETIREMENT UNDER THESE REQUESTS WILL RETIRE.

THUS, PRESENT LAW ALREADY PROVIDES ADEQUATE RETIREMENT AUTHORITY TO ADDRESS THE GOVERNMENT'S PERSONNEL REDUCTION NEEDS. MOREOVER, THE CURRENT AUTHORITY PRESERVES MANAGEMENT CONTROL OVER WORK FORCE REDUCTIONS AND RESTRICTS PREMATURE LOSS OF ESSENTIAL SKILLS.

WE ARE ALSO CONCERNED THAT S. 4[illegible] WOULD ACTUALLY INCREASE BUDGETARY OUTLAYS SUBSTANTIALLY IN THE SHORT TERM, WHILE FAILING TO ACHIEVE APPRECIABLE LONG-TERM SAVINGS. EARLY RETIREMENT CAN BE A VERY COSTLY ALTERNATIVE, FIRST, BECAUSE THERE WILL BE IMMEDIATE AND SUBSTANTIAL BUDGET OUTLAYS FOR

EARLY RETIREES WHO ELECT LUMP-SUM WITHDRAWALS OF INDIVIDUAL RETIREMENT SYSTEM CONTRIBUTIONS.

SECONDLY, STRINGENT CONTROLS ON THE HIRING OF REPLACEMENT EMPLOYEES ARE REALLY NOT FEASIBLE ON A LONG-TERM BASIS. SO, WHILE THE RETIREMENT OF AN EMPLOYEE THEORETICALLY SHOULD ACHIEVE LONG-TERM SAVINGS FOR THE GOVERNMENT, SINCE AN EMPLOYEE'S ANNUITY IS LESS THAN SALARY, THAT SAVINGS TURNS INTO A COST IF THE RETIRED EMPLOYEE ENDS UP BEING REPLACED. S. 42 ITSELF RECOGNIZES THAT ALL RETIRING EMPLOYEES WOULD NOT BE EXPENDABLE AND THE BILL WOULD PROVIDE LIMITED PRESIDENTIAL DISCRETION FOR WAIVING THE FREEZE ON REHIRING. THIS IS CERTAIN TO GENERATE PRESSURES FOR LEGISLATIVE ACTION TO FURTHER RELAX THE FREEZE.

A RELATED ISSUE WE NEED TO BE CONCERNED ABOUT IS THE PRESENT EXISTENCE OF STATUTORY IMPEDIMENTS TO SOUND FEDERAL PERSONNEL MANAGEMENT. IN WHAT AMOUNTS TO A SERIOUS INTRUSION INTO EXECUTIVE MANAGEMENT ABILITY, CONGRESS HAS SEEN FIT IN APPROPRIATIONS ACTS IN RECENT YEARS TO REQUIRE VARIOUS AGENCIES AND PROGRAMS TO MAINTAIN MINIMUM EMPLOYMENT LEVELS. THE ADMINISTRATION HAS REPEATEDLY VOICED ITS OPPOSITION TO THIS PRACTICE WHICH RENDERS IT IMPOSSIBLE FOR AGENCIES TO MANAGE FLUCTUATIONS IN THEIR WORKLOADS OR TO ABSORB REDUCTIONS IN THE MOST EFFICIENT MANNER. CLEARLY, SUCH STATUTORY EMPLOYMENT FLOORS HAVE TO BE ELIMINATED IF WE ARE

TO REDUCE THE SIZE OF THE WORK FORCE RATIONALLY AND EQUITABLY.

IN CONCLUSION, OPM BELIEVES THAT THE CURRENT EARLY RETIREMENT AUTHORITY, TOGETHER WITH NATURAL ATTRITION, IS FULLY ADEQUATE TO DEAL WITH ANY CURRENTLY ANTICIPATED WORKFORCE REDUCTIONS. THERE IS NO NEED FOR LEGISLATION SUCH AS S. 42 AT THIS TIME AND, IN VIEW OF THE POTENTIALLY VERY COSTLY AND DISRUPTIVE CONSEQUENCES FOR THE GOVERNMENT WHICH THIS PROPOSAL INVOLVES, OPM MUST OPPOSE ITS ENACTMENT.

THANK YOU. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS.

Statement of
Rosslyn S. Kleeman, Senior Associate Director
General Government Division

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss S. 42, a bill that proposes to reduce federal employment levels by authorizing a temporary governmentwide early retirement opportunity for federal civilian employees. The bill would allow employees who meet specified age and years of service criteria (any age with 25 years of service, age 50 with 20 years of service, age 55 with 15 years, or age 57 with 5 years) to retire on immediate annuities. Their benefit amounts would be reduced by 2 percent for each year they are under age 55.

The bill's early retirement option would be available for a 90-day period beginning 60 days after enactment, and apply to all federal retirement systems for civilian employees. Certain employees in designated positions and those already covered by special early retirement provisions would be excluded. Moreover, unless waivers were granted by the President or his designee, agencies could not replace for 3 years any employees who retired early or under the regular provisions during the 90-day period, but they could promote internally to fill vacant positions.

Most of the employees who would be eligible to retire under the bill are covered by the civil service retirement system. It is the government's largest retirement system for civilian employees. The system generally requires employees to be age 55 with 30 years of service, age 60 with 20 years, or age 62 with 5 years, before they can retire. Thus, the bill is proposing a considerable expansion of the pool of individuals who would be eligible for early retirement.

Early retirements can be authorized under current law. However, they are limited to situations where agencies are undergoing major employment reductions or instances where individuals' positions are abolished. No such requirement would be imposed by S. 42. Also, early retirement is now available only to employees who are at least age 50 with 20 years of service or any age with 25 years. As of April 8, 1988, the Office of Personnel Management had approved agencies' requests to offer early retirement to over 50,000 eligible employees primarily in the Department of Defense. This high number of early retirement authorizations resulted from agencies' staffing cutbacks based on fiscal year 1988 budget reductions.

To the extent that employees retire early and are not replaced, the bill would result in the eventual reduction of federal expenditures. If the workforce is reduced, this bill would also help to save jobs for recently hired employees, many of whom are women and minorities with little seniority. Also, promotion opportunities would be increased for younger employees. However, in our opinion, workforce reductions should generally be based on program cutbacks or elimination. By not considering the effect on program performance and efficiency, arbitrary reductions may be counterproductive.

According to the latest data available from the Office of Personnel Management, about 175,000 federal employees are eligible for regular retirement. Under the bill, an additional 430,000 employees would be eligible for early retirement. Thus, nearly 600,000 employees, or about 20 percent of the workforce, could elect immediate retirement if the bill were enacted.

Obviously, if all eligible employees elected to retire, the effect on the administration of government programs could be devastating. Normally, about one-third of all employees eligible for regular retirement retire each year. However, it is difficult to estimate with any degree of precision how many employees would retire early. Eligible employees usually consider a host of factors in deciding whether to retire, including their financial situation, satisfaction with their jobs, health status, and opportunity for other employment.

The Congressional Budget Office, recognizing the difficulty of predicting how many employees would leave, estimated that 42,000 or about 10 percent of the eligible employees would elect early retirement. About 16,000 other employees would be expected to retire under the regular provisions during the 90-day period. As a result of these early retirements, government outlays will increase for payments of retirement benefits and unused annual leave. In addition, retiring employees will no longer be making contributions toward their retirement and basic life insurance benefits. Offsetting these items will be payroll savings from a reduced workforce. In October 1987, the Budget Office estimated potential savings of $3 billion over the next 4 years if these retiring employees are not replaced. We agree with the methodology used in making this estimate. However, we understand that the Budget Office is currently updating its estimate.

We believe S. 42 is an improvement over the previous early retirement proposal the Committee considered which had no restrictions on who would be allowed to retire early. S. 42 authorizes the President to exempt up to 25 percent of the otherwise eligible employees to preclude the early retirement of employees who occupy essential positions. Similarly, the bill would exempt the Postal Service from the hiring limitation in order to avoid disruptions in mail service and would authorize the President to waive the hiring limitations in certain other circumstances as well.

With these provisions and if such a reduction is found to be desirable or necessary, we believe the bill could provide an effective approach to reducing the size of the federal workforce. Should this be the case, Congress may also wish to consider coupling this expanded early retirement authority with reductions in agencies' programs during the budget reconciliation process. Regardless of the action taken on this bill, Congress may want to broaden the Office of Personnel Management's existing authority by making permanent the provisions for the expanded eligibility and restrictions on who may leave in order to better manage any future workforce reductions.

This concludes my prepared remarks. I would be pleased to answer any questions you may have.

Testimony on S. 42

Utah's Early Retirement Program

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April 21, 1988

Utah's early retirement program was initiated in March 1987. Utah's H.B. 142 was introduced during a 45-day legislative session, did not go through our interim study process, and received limited study prior to its introduction. Due to time constraints, a detailed study of costs and savings was not performed.

In order to assist the U.S. congress in its deliberations on a similar federal program, information on Utah's experience will be focused in four areas:

PURPOSE;

RESULTS;

COMPARISON WITH FEDERAL PROPOSAL; and

OBSERVATIONS.

PURPOSE

Members of the Utah legislature had three objectives when they adopted H.B. 142, the Early Retirement Incentive - Service Credit Increase Act:

- Reducing the cost of government
- Rewarding long-term employees
- Increasing career opportunities

Reducing the Cost of Government

Since long-term employees are among the highest paid, a large replacement of that group with less costly employees would provide a reduction in cost for providing the same level of service. If employees retiring under the program were not replaced, large savings would result from a long-term reduction in the government work force. It was felt that some positions could be eliminated without a major impact on services.

Some legislators argued that some long-term employees were not as motivated or efficient as they had once been. By providing higher benefits under a window program, these employees would be given the incentive to retire, allowing for replacement by younger, more motivated and productive workers.

Rewarding Long-Term Employees

Utah's current retirement benefit formula produces one of the highest salary replacement rates in the public sector. However, the current formula has only been in place since 1975. By allowing the current formula for all years of service, long-term employees taking advantage of the early retirement window would enjoy a greater replacement rate than under the regular retirement system. The legislature provided an additional incentive to retire under the window. The legislature eliminated the state's 3 percent per year actuarial reduction for retiring prior to age 65 without thirty years of service.

Increasing Career Opportunities

With large numbers of long-term employees leaving the system, a domino effect would be set into place, allowing opportunities for advancement from the top to the bottom of state agencies. Because of the tendency to promote from within a merit system, new employment opportunities would open at the bottom of agencies, allowing for an increase of new government employees without increasing the size or cost of government.

RESULTS

The objectives intended by the Utah legislature were largely attained. Over 3,300 employees were rewarded with higher salary replacement rates than under the regular retirement program. Career opportunities were increased in state, public education and local government agencies. The cost of government was reduced: long-term in state non-public education employment and short-term in public education employment.

Costs and Savings

The cost to operate the program was absorbed within the current budget of the state's retirement agency but required significant overtime for existing staff. The savings versus the cost of providing increased salary replacement rates for early retirees has been estimated by the Legislative Auditor General for the first two years of the program and is summarized below.

Fiscal Year	Projected Savings	Retirement Costs	Net Savings
1987-1988	$ 20,579,838	$(12,398,235)	$ 8,181,603
1988-1989	26,098,779	(12,398,235)	13,700,544
2 Year Total	$ 46,678,617	$(24,796,470)	$ 21,882,147

·Impact on the State Work force

Of the 5,364 employees eligible, 3,344 or 62 percent exercised their option to take early retirement. Because of the unique stress placed on Utah's public education system (Utah having the largest and fastest growing school-age population in the nation), virtually all retiring school teachers and administrators have been replaced.

The non-public education employment areas more directly under gubernatorial control produced the greatest long-term savings. Although the early retirement act did not specify rehiring levels, the governor declared that only one of every two positions vacated through the early retirement program could be filled. The governor further specified FTE targets by agency and gave his budget agency the authority to keep budget authorizations for staff within the mandated levels. These mandated levels reduced non-public education employment by 350 positions or 3 percent.

COMPARISON WITH FEDERAL PROPOSAL

The implementation of Utah's window program has pointed out several shortcomings with the Utah approach, which should be shared with other decision makers contemplating similar programs. The advice gained from Utah's experience will be presented along with a comparison of features of S. 42.

Window Period

Utah's program is nearly identical to the proposed federal program in this regard: a 90 day window period beginning 60 days after enactment. In retrospect, the 60 day period provides an extremely short time frame for both administrators and participants. The administrators had very little time to interpret the law, design rules, procedures, modify automated systems, conduct employee education programs and provide counseling to individual employees.

The window period forced individuals who qualified to make important decisions which would affect them for the rest of their lives with little time to develop and explore alternative courses of action and become adequately prepared for unexpected major changes in their life-styles. It is apparent that some employees felt forced to decide a course of action which they now regret.

Eligibility

Utah's plan is similar to S. 42, as shown below.

S. 42	H.B. 142
25 years of service at any age	25 years of service at any age
20 years of service at age 50	20 years of service at age 60
15 years of service at age 55	10 years of service at age 62
5 years of service at age 57	4 years of service at age 65

Benefit Amount

In the Utah window program, employees retiring at less than 65 years of age did not take an actuarial reduction (under the regular retirement program, they take 3 percent reduction for each year from age 60 to 65). In the proposed federal program, employees retiring below age 55 take a 2 percent benefit reduction for each year below age 55.

Hold-Over Authority

Provision in the Utah program for extended employment for key employees proved very useful to managers and were appreciated by employees, although handling extensions of employment provided some of the most difficult challenges to administrators of the program. Agency managers negotiated continued employment for key employees with the governor on a case-by-case basis up to a maximin deferral of one year. 18 key employees were granted extensions. It is possible that a longer preparation period prior to the window could have reduced the number of extensions.

Restrictions on Rehiring

The lack of specificity in Utah's law concerning this area generated confusion in implementing the Utah program. In contrast to the three year rehiring prohibition in the proposed federal program, the Utah law contains no hiring prohibition. Utah's law did not specify who could be rehired for what job or for what compensation.

Can an employee retiring from one agency be rehired in another agency?

Can an employee retire and rejoin the same agency but in a different position?

Although the answer to these questions was not included in the law, the intent of legislators was to restrict rehires. The executive branch adopted a policy against rehiring early retirees.

As a separate but related policy to early retirement, the governor set employment targets for each agency. Those targets reflected a replacement of one out of every two vacancies created by early retirements. This aspect of Utah's program has proven successful in creating long-term savings in agencies directly reporting the the chief executive. It allows program managers to shift resources in the face of changing service demands and allows future legislators to add programs or increase funding for existing programs.

The waiver of restrictions feature of the proposed federal program for user fee funded agencies is similar to an executive policy in Utah where exceptions to employment ceilings are routinely made for federally funded or fee funded positions.

OBSERVATIONS

Utah's program is working as it was designed to. In conjunction with the governor's employment restrictions, the overall impact has been positive thus far for employees, management and the legislature. However, if Utah could do it over again, I would recommend we:

- study the bill's implications in depth before the legislative session;
- perform a detailed study of long-term costs and savings;
- consider an actuarial reduction for employees retiring prior to 65;
- consider a less expensive yet attractive salary replacement rate; and
- specify the desired outcomes on employment and service impacts;
- consider more specific rehiring features for inclusion in the law.
- provide more time for employees to be counseled and educated before deciding whether to opt for early retirement.

EARLY RETIREMENT INCENTIVE - SERVICE CREDIT INCREASE

1987

GENERAL SESSION

Enrolled Copy

H. B. No. 142

By Mike Dmitrich
Jack F. DeMann
Joseph L. Hull
Arlo D. James
Kurt E. Oscarson

AN ACT RELATING TO PENSIONS; INCREASING THE YEARS OF SERVICE PERCENTAGE FORMULA USED TO CALCULATE RETIREMENT BENEFITS FOR PERSONS WHO MEET CERTAIN RETIREMENT REQUIREMENTS, WHO ARE MEMBERS OF THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM OR PUBLIC EMPLOYEES' NONCONTRIBUTORY RETIREMENT SYSTEM, AND WHO ELECT TO RETIRE WITHIN A SPECIFIED PERIOD OF TIME; AND PROVIDING AN EFFECTIVE DATE.

THIS ACT AFFECTS SECTIONS OF UTAH CODE ANNOTATED 1953 AS FOLLOWS:

AMENDS:

49-2-402, AS ENACTED BY CHAPTER 1, LAWS OF UTAH 1987

49-3-402, AS ENACTED BY CHAPTER 1, LAWS OF UTAH 1987

ENACTS:

49-2-802, UTAH CODE ANNOTATED 1953

49-3-802, UTAH CODE ANNOTATED 1953

Be it enacted by the Legislature of the state of Utah:

Section 1. Section 49-2-402, Utah Code Annotated 1953, as enacted by Chapter 1, Laws of Utah 1987, is amended to read:

49-2-402. (1) There are [four] six service retirement plans available to members of the system. Plan one is as follows, with Plans two, three, [and] four, five, and six established under Section 49-2-403.

(2) [Upon] Except for members of this system who meet the requirements of Section 49-2-802, upon the service retirement of a member under Section 49-2-401, the member shall receive a retirement allowance consisting of an annuity, a pension based on prior service and a pension based on current service, the total of which is determined as follows:

(a) If the member has attained the age of 65 years, the retirement allowance is:

(i) an amount equal to 1.10% of the member's final average monthly salary, multiplied by the number of years of service credited for service rendered prior to July 1, 1967; plus

(ii) an amount equal to 1.25% of the member's final average monthly salary multiplied by the number of years of service credited for service rendered on and after July 1, 1967, through June 30, 1975; plus

(iii) an amount equal to 2% of the member's final average monthly salary multiplied by the number of years of service credited for service rendered on and after July 1, 1975.

In no case may that part of a retiring member's allowance, based upon prior service, as provided in Subsection (2)(a)(i) be less than 1.15% of that member's final average monthly salary if the final average monthly salary is $500 or less, multiplied by the number of prior service years standing to the member's credit at retirement.

(b) If the member is less than 65 years old, the retirement allowance shall be reduced 3% for each year of retirement from age 60 to age 65, unless the member has 30 or more years of credit in which event no reduction is made to the allowance.

(c) The retirement allowance calculated under Subsection (2) for a member with 30 or less years service, when combined with the member's primary insurance amount under social security, may not exceed 100% of the member's final average salary.

(d) The retirement allowance for a member with more than 30 years service is:

(i) the allowance calculated under Subsection (2) multiplied by the ratio that 30 bears to the member's total years of service; minus

(ii) the amount by which the total amount calculated under Subsection (2)(a), when combined with the member's primary insurance amount under social security, exceeds 100% of the member's final average salary; multiplied by

(iii) the ratio the member's total years of service bears to 30.

(3) Years of service includes any fractions of years of service to which the member may be entitled. Notwithstanding the formula for computing the service retirement allowance for members participating in the program, the board shall, in as far as practical, adjust the percentage factor used in the service retirement allowance formula, in its application to the years of service of a retiring member to a percentage amount not less than 1%, nor more than 2%, per year of

service. The foregoing adjustment when made shall maintain the retirement trust account on an actuarially sound basis if the employer contributions, member contributions, and earnings of the fund are insufficient to fund the benefits provided for members participating in the program.

(4) (a) The final average salary is limited in the computation of that part of a member's prior service retirement allowance based on service rendered during a period when the member received employer contributions on a portion of compensation from an educational institution toward the payment of the premium required on a retirement annuity contract with the Teachers' Insurance and Annuity Association of America or with any other public or private system, organization, or company to $4,800. This limitation is not applicable to members who elected to continue in the state retirement system by July 1, 1967.

(b) When a retirement allowance is computed for a member who has credit for segments of service in the system, broken by participating membership in an annuity or other organization as permitted under Subsection 49-2-205 (3), each segment of service shall have an allowance computed as though each segment were all the service for which the member received credit. Allowances thus computed shall be added together for payment. However, that period of service, not to exceed four years, may be credited to the member for the purpose of determining years of service in establishing the member's eligibility for retirement.

Section 2. Section 49-2-802, Utah Code Annotated 1953, is enacted to read:

49-2-802. (1) Any member of this system may retire and receive the benefit allowed under Subsection (2) if the member meets the following requirements as of the effective date of retirement:

(a) the member is eligible for retirement under Section 49-2-401, or otherwise has 25 years of service credit;

(b) the member elects to forfeit any stipend for retirement offered by the employing unit; and

(c) the member elects to retire from this system by applying for retirement by the date established under Subsection (3) (a) or (3) (b).

(2) A member who retires pursuant to Subsection (1) shall receive 2% of that member's final average salary for all years of service credit. No actuarial reduction may be applied to the benefit granted under this section.

(3) In order to receive the benefit allowed by this section, a member shall submit an application to the retirement office as follows:

(a) For state and school employees under level A, the application shall be filed by May 31, 1987. The effective date of retirement shall then be set by the employee on the first or sixteenth day of July, August, or September, 1987. If a level A employee elects to retire, the administrator or employer may request the employee to delay the effective date of retirement until a later date, but no later than June 30, 1988. If the employee agrees to delay the effective retirement date, the effective date shall be delayed, but no service credit may be accrued after the original effective date of retirement elected by the employee, and no salary earned after that effective date may be used in the calculation of the final average salary for determining the retirement benefit.

(b) For political subdivisions under level B, the application shall be filed by September 30, 1987. The effective date of retirement shall then be set by the employee on the first or sixteenth day of July, August, September, October, November, or December, 1987.

(4) (a) The cost of providing the benefit under this section shall be funded in fiscal year 1987-88 by a supplemental appropriation in the 1988 General Session based on the retirement contribution rate increase established by the consulting actuary and approved by the board.

(b) The cost of providing the benefit under this section shall be funded beginning July 1, 1988, by means of an increase in the retirement contribution rate established by the consulting actuary and approved by the board.

(c) The rate increase under Subsections (4) (a) and (b) shall be funded:

(i) for state employees, by an appropriation from the account established by the Division of Finance under Subsection (4) (d) which is funded by savings derived from this early retirement incentive and a work force reduction;

(ii) for school employees, by direct contributions from the employing unit, which may not be funded through an increase in the retirement contribution amount established in the School Finance Act; and

(iii) for political subdivisions under level B, by direct contributions by the employing unit.

(d) Each year, any excess savings derived from this early retirement incentive which are above the costs of funding the increase and the costs of paying insurance, sick leave, compensatory leave, and vacation leave under Subsections (4) (c) (i) and (4) (c) (ii) shall be reported to the Legislature and shall be appropriated as provided by law. In the case of Subsection (4) (c) (i), the Division of Finance shall establish an account into which all savings derived from this early retirement incentive shall be deposited as the savings are realized. In the case of Subsection (4) (c) (ii), the State Office of Education shall certify the amount of savings derived from this early retirement incentive and neither the State Office of Education nor the employing unit may spend the savings until appropriated by the Legislature as provided by law.

(5) A member who retires under this section may not cancel the retirement and return to active employment with a unit covered by this system or the Public Employees' Noncontributory Retirement System and continue to accrue service credit.

(6) The retirement board may adopt rules to implement and administer this section.

(7) The Legislative Auditor General shall perform an audit to ensure compliance with this section.

Section 3. Section 49-3-402, Utah Code Annotated 1953, as enacted by Chapter 1, Laws of Utah 1987, is amended to read:

49-3-402. (1) There are [four] six service retirement plans available to members of the system. Plan one is as follows, with plans two, three, [and] four, five, and six established under Section 49-3-403[~~, with additional options under Section 49-3-404~~].

(2) [Upon] Except for members of this system who meet the requirements of Section 49-3-802, upon the service retirement of a member under Section 49-3-401, the member shall receive a retirement allowance consisting of a pension based on service determined as follows:

(a) If the member has attained the age of 65 years, the retirement allowance is:

(i) an amount equal to 1.10% of the member's final average monthly salary, multiplied by the number of years of service credited for service rendered prior to July 1, 1967; plus

(ii) an amount equal to 1.25% of the final average monthly salary multiplied by the number of years of service credited for service rendered on and after July 1, 1967, through June 30, 1975; plus

(iii) an amount equal to 2% of the final average monthly salary multiplied by the number of years of service credited for service rendered on and after July 1, 1975.

In no case may that part of a retiring member's allowance, based upon service as provided in Subsection (2) (a) (i), be less than 1.15% of that member's final average monthly salary if the final average monthly salary is $500 or less, multiplied by the number of service years standing to the member's credit at retirement.

(b) If the member is less than 65 years old, the retirement allowance shall be reduced 3% for each year of retirement from age 60 to age 65, plus a full actuarial reduction for each year of retirement prior to age 60, unless the member has 30 or more years of credit, in which event no reduction is made to the allowance.

(c) The retirement allowance calculated under Subsection (2) (a) for a member with 30 years or less service, when combined with the member's primary insurance amount under social security, may not exceed 100% of the member's final average salary.

(d) The retirement allowance for a member with more than 30 years of service is:

(i) the allowance calculated under Subsection (2) (a), multiplied by the ratio that 30 bears to the member's total years of service; minus

(ii) the amount by which the total amount calculated under Subsection (2) (d), when combined with the member's primary insurance amount under social security, exceeds 100% of the member's final average salary; multiplied by

(iii) the ratio the member's total years of service bears to 30.

(3) Years of service include any fractions of years of service to which the member may be entitled. Notwithstanding the formula for computing the service retirement allowance for members participating in the program, the board shall, in as far as practical, adjust the percentage factor used in the service retirement allowance formula, in its application to the years of service of a retiring member to a percentage amount not less than 1%, nor more than 2% per year of service. The foregoing adjustment when made shall maintain the retirement trust account on an actuarially sound basis if the employer contributions and earnings of the fund are insufficient to fund the benefits provided for members participating in the program.

(4) (a) The final average salary is limited in the computation of that part of a member's prior service retirement allowance based on service rendered during a period when the member received employer contributions on a portion of compensation from an educational institution toward the payment of the premium required on a retirement annuity contract with the Teachers' Insurance and Annuity Association of America or with any other public or private system, organization, or company to $4,800. This limitation is not applicable to members who elected to continue in the state retirement system by July 1, 1967.

(b) When a retirement allowance is computed for a member who has credit for segments of service in the system, broken by participating membership in an annuity or other organization as permitted under Subsection 49-3-206 (3), each segment of service shall have an allowance computed as though each segment were all the service for which the member received credit. Allowances thus computed shall be added together for payment. However, that period of service, not to exceed four years, may be credited to the member for the purpose of determining years of service in establishing the member's eligibility for retirement.

Section 4. Section 49-3-802, Utah Code Annotated 1953, is enacted to read:

49-3-802. (1) Any member of this system may retire and receive the benefit allowed under Subsection (2) if the member meets the following requirements as of the effective date of retirement:

(a) the member is eligible for retirement under Section 49-3-401, or otherwise has 25 years of service credit;

(b) the member elects to forfeit any stipend for retirement offered by the employing unit; and

(c) the member elects to retire from this system by applying for retirement by the date established under Subsection (3) (a) or (3) (b).

(2) A member who retires pursuant to Subsection (1) shall receive 2% of that member's final average salary for all years of service credit. No actuarial reduction may be applied to the benefit granted under this section.

(3) In order to receive the benefit allowed by this section, a member shall submit an application to the retirement office as follows:

(a) For state and school employees under level A, the application shall be filed by May 31, 1987. The effective date of retirement shall then be set by the employee on the first or sixteenth day of July, August, or September, 1987. If a level A employee elects to retire, the administrator or employer may request the employee to delay the effective date of retirement until a later date, but no later than June 30, 1988. If the employee agrees to delay the effective retirement date, the effective date shall be delayed, but no service credit may be accrued after the original effective date of retirement elected by the employee, and no salary earned after that effective date may be used in the calculation of the final average salary for determining the retirement benefit.

(b) For political subdivisions under level B, the application shall be filed by September 30, 1987. The effective date of retirement shall then be set by the employee on the first or sixteenth day of July, August, September, October, November, or December, 1987.

(4) (a) The cost of providing the benefit under this section shall be funded in fiscal year 1987-88 by a supplemental appropriation in the 1988 General Session based on the retirement contribution rate increase established by the consulting actuary and approved by the board.

(b) The cost of providing the benefit under this section shall be funded beginning July 1, 1988, by means of an increase in the retirement contribution rate established by the consulting actuary and approved by the board.

(c) The rate increase under Subsections (4) (a) and (b) shall be funded:

(i) for state employees, by an appropriation from the account established by the Division of Finance under Subsection (4) (d) which is funded by savings derived from this early retirement incentive and a work force reduction;

(ii) for school employees, by direct contributions from the employing unit, which may not be funded through an increase in the retirement contribution amount established in the School Finance Act; and

(iii) for political subdivisions under level B, by direct contributions by the employing unit.

(d) Each year, any excess savings derived from this early retirement incentive which are above the costs of funding the increase and the costs of paying insurance, sick leave, compensatory leave, and vacation leave under Subsections (4) (c) (i) and (4) (c) (ii) shall be reported to the Legislature and shall be appropriated as provided by law. In the case of Subsection (4) (c) (i), the Division of Finance shall establish an account into which all savings derived from this early retirement incentive shall be deposited as the savings are realized. In the case of Subsection (4) (c) (ii), the State Office of Education shall certify the amount of savings derived from this early retirement incentive and neither the State Office of Education nor the employing unit may spend the savings until appropriated by the Legislature as provided by law.

(5) A member who retires under this section may not cancel the retirement and return to active employment with a unit covered by this system and continue to accrue service credit under this system.

(6) The retirement board may adopt rules to implement and administer this section.

(7) The Legislative Auditor General shall perform an audit to ensure compliance with this section.

Section 5. This act takes effect upon approval by the governor, or the day following the constitutional time limit of Article VII, Sec. 8 without the governor's signature, or in the case of a veto, the date of veto override.

RESPONSES OF MR. SULLIVAN TO WRITTEN QUESTIONS SUBMITTED BY SENATOR PRYOR

Question 1. If you could retire early with an immediate annuity, who might you seek employment with? Would you go to work as a consultant or with a defense contractor?

Answer. If I could retire early with an immediate annuity I would most likely pursue elective office at the county or State level after another term or two at the municipal level.

Question 2. If we let you retire now *but* delayed your annuity (and lump sum withdraw) until you reached age 55, would you take advantage of the opportunity?

Answer. If offered retirement with a delayed annuity until age 55, I probably would not accept the opportunity. I feel there is a strong need for candid managers at the mid and senior levels in Federal Service. If I have to work full time, I feel an obligation to continue in Federal Service.

Question 3. If you could go out early with an immediate annuity reduced actuarially by 6–8% for each year you are under age 55, would you avail yourself of the opportunity?

Answer. I cannot foresee any circumstances where I would accept retirement with a reduced annuity of 6 to 8%. At 8% I'd owe the Government; even at 6%, I would be foolish to pay a 78% penalty.

STATEMENT BY KENNETH T. BLAYLOCK, NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES (AFL-CIO)

My name is Kenneth T. Blaylock. I am the National President of the American Federation of Government Employees (AFL-CIO). On behalf of the 700,000 employees we represent, I appreciate the opportunity to testify before this Committee on S.42 introduced by Senator William Roth (R-Del.).

S.42 is a revised version of S.2197 which was introduced by Senator Roth in the 99th Congress and on which we testified before this Committee on May 15, 1986.

At that time, we expressed serious reservations about the coupling of an early retirement option with lowered personnel ceilings. Our reservations still stand.

S.42 would provide for a three month "window," sixty days after the passage of the act during which employees would be eligible for early-out retirement.

To be eligible for such an early-out retirement, the employee would be required to meet any of the following standards:

- Have 25 years of federal service;
- Be age 50 with a minimum of 20 years of federal service;
- Be age 55 with a minimum of 15 years of federal service; or
- Be age 57 with a minimum of 5 years of federal service.

Any employee age, 55 or older, meeting the standards and opting for such early-out retirement would receive his or her full benefit, while an employee, under age 55, would have his or her benefit reduced by two percent for each year they are under age 55.

Exempted from the bill would be nonsupervisory:

- law enforcement officers
- firefighters

- air traffic controllers
- bankruptcy judges
- judges of the U.S. Court of Military Appeals

The President would also be empowered to exempt additional occupational categories, projects and/or locations but such exemptions would be limited to a ceiling of 25% of the eligible population in an agency. (Temporary, six month "holdover" authority is also given to agency heads for "essential" employees.)

The key to our objections to the bill is the hiring restrictions placed upon the agencies, which bar them from replacing employees who retire during the window period for a three year period. Executive agencies would be legally forbidden to hire employees unless such hiring would not exceed the number of employees employed at the beginning of the window period, minus the number of employees who retire during the window period. The reduced employment levels would reflect both normal retirees (i.e., someone who is 55 with 30 years of service) and those who are taking advantage of the early-out window. In addition, the reduced employment level would not only be based on actual retirement but also eliminate any unfilled vacancies. In effect, this is a nonplanned, unmanaged, legislatively mandated, reduced manpower ceiling.

The President can waive such hiring restrictions for essential services and for employees who are financed through user fees, subject to certain limitations. (It is important to note that this would give the executive branch broad powers in deciding which agencies will have an adequate work force and which will not.)

We oppose this legislation, as currently drafted, on the following grounds:

A. No agency could absorb the personnel losses without severe disruption of programs and services.

B. The employees remaining would be subjected to impossible demands, work speedups and pressure.

C. Instead of savings, the bill will likely increase costs as agencies avoid the lowered personnel ceilings by hiring additional contract employees.

PERSONNEL REDUCTIONS

The tables in Appendix I are derived from data from OPM's Office of the Actuary which was used to develop the normal cost of the Civil Service Retirement System. [The data is from 1982 and may be slightly different now, but the numbers are broadly consistent with GAO estimates of 470,000 newly entitled to retire and 250,000 currently eligible to retire (GAO testimony before this committee in 1986.)]

As the tables indicate, some 469,216 employees would be newly entitled to retire under this legislation. An additional 257,912 employees are already entitled to retire. If the President's exclusion authority is not exercised, federal employment could potentially drop by over 727,000 in three months and then be frozen at that level for three years. Even if this number was cut to one-third, to account for exemptions and for those who choose not to retire, some 242,000 jobs essentially would be eliminated.

As can be seen from the tables, and from the nature of the early out, the 200,000 plus employees who retire would be drawn from the most experienced personnel, those personnel with the institutional memory that every workplace needs for continuity and efficient operation.

This compares to the President's FY 89 ~~Budget~~ proposal which seeks to cut federal positions by 26,605. AFGE and other organizations have criticized the Administration on many grounds but for the life of me, I cannot remember any organization which claims that Ronald Reagan seeks to pad federal payrolls. Yet this legislation would realistically knock out almost ten times as many federal positions as proposed by the President in this year's budget.

The premise that the federal government can reduce personnel without reducing the role of government commensurately is greatly flawed. Over the past decade, salary and expense accounts and administrative budgets have been drastically squeezed throughout the federal government. As I travel this country speaking to locals, I hear a repeating theme: "We used to do this job thoroughly and correctly. Now, with the reduced personnel (or additional workload), we just make do."

There is a false view in the body politic that the federal "bureaucracy" has grown enormously in the past three decades. This is simply wrong. Compared to any other relevant aspect of the United States (and recognizing the growing complexity of government), the federal work force is doing more with less. Consider:

- Since 1960, the federal work force has declined in relation to the country's population.
- Since 1960, the federal work force has declined in relation to the civilian work force.
- Since 1960, the federal work force has declined in relation to state and local government work force.

Even in Defense, where civilian employment has increased by 13% since 1980, it has grown at a much slower rate than the real growth in Defense spending.

The Administration's FY 1987 budget request proposed eliminating scores of government programs, privatizing others, and turning other programs over to the state and local government. Even with these drastic proposals, they estimated they could only reduce civilian agency employment net of DoD and the Postal Service by 23,452. Any proposal to cut personnel by ten times that amount must assume program reductions much more severe than that envisioned by the President's FY 1987 budget.

You simply cannot expect to do away with the work force and believe that the government programs will remain standing.

THE IMPACT ON EMPLOYEES

If the envisioned reduction in employment did take place, the impact on the remaining work force would be devastating. The retirements would not take place in a rational or evenhanded manner. For example, in Social Security field offices, one could expect some offices to be hit with up to 50% retirements while other offices would have few retirements. The Social Security Administration, under the hiring constraint, would then be forced to transfer thousands of employees from one office to another to "even out the staffing." Of course, many of these employees would quit rather than move their family from their community adding another wave of personnel disruption to the agency and its employees.

The dislocations would not only be geographic. Certain positions are likely to be especially hard hit while others escape uncut; thereby creating severe job imbalances. As anyone here knows,if you don't have sufficient support staff, your professionals can't get their job done. In the Veterans Administration, it will be difficult for a doctor to treat broken bones if all the x-ray technicians have retired. The waiver authority under Section 8(b) would need to be widely exercised. But we suspect that agencies would often come up very quickly against the ceiling imposed in Section 8(b)(2) which says waivers in any agency cannot exceed the cost savings from the legislation.

Finally, of course, it is a truism that if the work force is reduced by 8% to 15% while the workload remains the same, the remaining workers will need to work that much faster, harder or longer. This is without respect to the fact that federal workers already put in a hard, honest, full day's work.

We have recently surveyed our Social Security employees in preparation for our contract negotiations. In that survey, 86% of the respondents cited stress as a problem. Stress is mainly a function of workload yet S.42, would blindly require these employees to absorb an additional major amount of work.

Federal employees are not machines. You cannot simply increase the speed to increase output. Yet this is exactly what this legislation is proposing.

CONTRACTING OUT

Finally, in light of the workload demands and the binding personnel ceilings, agencies would inevitably turn to their only other possible avenue for additional personal resources -- contract personnel. The end result would likely be an additional 200,000 people drawing federal pensions coupled with a hidden 200,000 contractor work force substituting for those who retired. In this scenario, there would be no budget savings, indeed there would be additional major budget outlays.

The contracting out language in section 8(g) clearly is insufficient to halt the substitution of contract workers for the retired employees. In reality, if Congress seeks to reduce personnel expenses, contracting out is the place to focus attention. Clearly contract personnel expenses are increasing at a much more rapid rate than civilian personnel expenses. For example, since 1979, the DoD contract work years has exploded from 337,000 to 596,000 compared to civilian employment of 990,000 and 1,125,000 respectively.

CONCLUSION

AFGE has long been a proponent of earlier retirement ages for federal workers, indeed for all U.S. workers. We maintain this stand; indeed if the binding lowered personnel ceilings are removed from this bill, we would happily endorse it.

Also, AFGE has long advocated the use of early-out retirement, and attrition in lieu of RIFs when agencies are undergoing personnel reductions. The Administration, after a flurry of RIF activity in the early 80's, is beginning to come around to this view. For example, DoD, which is currently being forced to cut back personnel due to budget constraints, has widely sought and received from OPM early-out authority to achieve these reductions. If the Congress wants to make early-out retirement even more effective in these situations, we recommend three improvements:

1. Liberalize the age and service requirements in the current early-out program (age 50 and 20 years of service or 25 years and any age) to include the standards proposed in S.42, namely age 55 with 15 years of service or age 57 with 5 years of service.
2. Eliminate the 2% annual penalty for retiring before age 55.
3. Address the tax penalties associated with taking the "lump sum" distribution before age 55 and the tax penalties on withdrawing money from the employee's

thrift account prior to age 55. (Currently employees who elect to withdraw their contributions in a lump sum distribution receive a 10% penalty on such distribution if it is taken before age 55.)

These proposals would make early-out retirement more attractive to employees and aid agencies pressed to make personnel reductions.

In conclusion:

1. We support early-out retirement but oppose linking personnel ceilings to the early-out retirement.
2. We oppose reducing federal personnel without a concomitant reduction in the workload.
3. We oppose substituting contract employees for civilian employees because personnel ceilings are lowered.
4. We broadly support liberalizing age and service requirements for retirement.
5. We support the use of early-out retirement in lieu of RIFs and encourage the Committee to explore liberalizing the existing early-out provisions to make them more effective.

Thank you.

APPENDIX I

EMPLOYEES (IN CSRS) NEWLY ELIGIBLE TO RETIRE UNDER S.42

	5-9	10-14	15-19	20-24	25-29	30+
40-44	0	0	0	0	7,204	0
45-49	0	0	0	0	65,939	7,236
50-54	0	0	0	54,998	72,090	62,613
55-59	* 11,530	*17,114	47,948	50,578	50,673	0
60-64	* 3,683	* 6,385	*11,195	0	0	0
TOTAL	15,213	23,529	59,143	105,576	195,906	69,849

GRAND TOTAL - 469,216

*ESTIMATED

EMPLOYEES IN THE CIVIL SERVICE RETIREMENT SYSTEM (CSRS): BY AGE NEAREST BIRTHDAY AND CLOSEST WHOLE YEAR OF SERVICE

AGE	YEARS OF SERVICE						
	<5	5-9	10-14	15-19	20-24	25-29	30+OVER
15-19	4,337.	0.	0.	0.	0.	0.	0.
20-24	82,640.	12,424.	0.	0.	0.	0.	0.
25-29	127,637.	139,995.	15,791.	0.	0.	0.	0.
30-34	88,935.	162,607.	146,526.	15,842.	0.	0.	0.
35-39	52,415.	89,990.	134,293.	115,887.	8,348.	0.	0.
40-44	39,352.	48,698.	57,256.	97,483.	68,871.	7,204.	0.
45-49	28,649.	46,063.	41,920.	56,929.	72,323.	65,939.	7,236.
50-54	16,089.	31,197.	43,834.	55,243.	54,998.	72,090.	62,613.
55-59	8,808.	18,530.	28,573.	47,948.	50,578.	50,673.	76,404.
60-64	3,218.	9,208.	15,963.	27,978.	28,849.	27,638.	45,097.
65-69	658.	1,941.	4,119.	6,714.	6,798.	6,169.	13,773.
70-74	177.	348.	826.	1,445.	1,255.	1,200.	3,215.
75-79	10.	35.	60.	85.	13.	16.	26.
TOTAL	452,926.	561,035.	489,161.	425,554.	292,031.	230,929.	208,364.

GRAND TOTAL - 266,000

EMPLOYEES (IN CSRS) ELIGIBLE TO RETIRE UNDER S.42 AND EXISTING RETIREMENT REQUIREMENTS

	5-9	10-14	15-19	20-24	25-29	30+
40-44	0	0	0	0	7,204	0
45-49	0	0	0	0	65,939	7,236
50-54	0	0	0	54,998	72,090	62,613
55-59	*11,530	*17,144	47,948	50,578	50,673	76,404
60-64	9,208	15,963	27,987	28,849	27,638	45,097
65-69	1,941	4,119	6,714	6,798	6,169	13,773
70-74	348	826	1,445	1,255	1,200	3,215
75-79	35	60	85	13	16	26
	23,062	38,112	84,170	142,491	230,929	208,364

GRAND TOTAL - 727,128

*ESTIMATED

SENIOR EXECUTIVES ASSOCIATION

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TESTIMONY BEFORE

THE COMMITTEE ON GOVERNMENTAL AFFAIRS

U.S. SENATE

ON

S. 42

FEDERAL EMPLOYEES OPTIONAL EARLY RETIREMENT ACT

APRIL 21, 1988

PRESENTED BY
CAROL BONOSARO, PRESIDENT

Thank you, Chairman Glenn, for the opportunity to present the views of the Senior Executives Association on S. 42, the "Federal Employees Optional Early Retirement Act." I am Carol Bonosaro, President of the Association.

We will respond to the five specific questions you have posed to us:

1. How do federal career senior executives view this legisation?

Those who have communicated with us generally favor S. 42.

Many senior executives are convinced that the only time they are going to be appreciated by the Administration, the Congress, and the American people is when they leave. They are convinced that no matter how important their job, how much productive work and leadership they provide the federal workforce, and how much experience they have accumulated over their federal careers, no one will notice the importance of their contribution until it is no longer made.

Basically, we believe S. 42 is viewed positively because so many senior executives feel cheated by the unwillingness of the government to compensate them fairly. Federal executives have been constantly losing ground in pay and benefits over the past decade. As the President's Commission on Compensation of Career

Federal Executives noted, senior executives have experienced a "history of broken promises and pay caps, reduced bonus provisions, the effects of inflation, the comparative pay gap with the private sector, and compression within and on either end of the SES pay range." Denial of this year's 2% pay raise to many senior executives, following on the heels of the minimal raise granted early in 1987, served to underscore for our careerists the lack of appreciation and value placed on them and their work.

Last year, at the request of Representative Vic Fazio, GAO compiled statistics on the numbers of SES executives accepting optional retirement when eligible and/or seeking second careers in the private sector, often at higher pay. Their random-sample survey results (from a 76% response rate) indicated that over 60% of then-currently employed SESers were dissatisfied with their salaries. Thirty-six percent of retired and resigned SESers surveyed reported that salary considerations contributed moderately or greatly to their decisions to leave the government. In addition to dissatisfaction with pay, 47% ranked "dissatisfaction with top management" and 43% ranked "dissatisfaction with political appointees" as great to very great factors in their decisions to leave the government; 34% noted too much political interference and 37% identified their frustration with criticism of federal workers by the press, politicians or public as major considerations.

Many who would like to leave federal service but have not yet done so remain because of their investment in the retirement system, which they stand to lose. S. 42 would give these executives the opportunity to leave.

Many senior executives, however, are concerned about the ability of the federal government to operate productively and efficiently in the aftermath of an exodus by a large number of career employees. The effect of many employees leaving, combined with this bill's restrictions on their replacement, could shake the foundations of many government agencies and seriously jeopardize their ability to carry out their missions. In supporting this bill, we do not for one minute underestimate the effect it will have on government's ability to operate. In many agencies, it will be devastating.

2. How many members of the Senior Executive Service do you think would take advantage of the early out option?

A reasonable estimate is 10%. We think that many career executives will stay because they are committed both to public service and to the programs they are working on. Also, the short window of opportunity to take an early-out will limit the number who leave.

Moreover, given the reduction in benefits which accompany an early out, it is likely that many will not leave unless they have other career opportunities arranged. This, combined with the short window, and the age and service requirements (although the majority of senior executives probably already meet them) leads to our estimate of 10%.

3. What impact will its enactment have on morale?

We believe it will initially be positive. Those who have wanted the opportuntiy to get out will take advantage of it and those who are commited to stay will stay without feeling they are being held captive. Nonetheless, the longer term effect on those who remain and who will be faced with personnel shortages -- and the need to do the same, or more, work with even fewer people-- may very well be negative.

4. What is your opinion of the current early-out program available to agencies facing personnel reductions as a result of budget cuts?

Currently, agencies experiencing budget problems may, with OPM's approval, choose to offer early retirements. This does not help many of those senior executives who want to leave but work in agencies where early retirements are not available to them. This option, however, more nearly matches the solution of early-out to agencies experiencing budget cutback, in contrast to S. 42, which arbitrarily reduces positions even at agencies where programs are not being cut back and forces an agency to maintain full operations with a reduced workforce.

5. Given the current problems with retention experienced by the senior service, do you think S. 42 is a good idea?

From the perspective of the management of the federal government and the need to meet our responsibilities under law to the American people, the consequences of S. 42 will be terrible. From the information the Association has collected, we know that many federal agencies are already experiencing difficulty recruiting from the outside to fill executive vacancies. Further, because many executives' pay is exceeded by GS-15s they supervise, there exists a serious disincentive for GS-15s to move into the Senior Executive Service. Senior executives are leaving daily for higher pay in private industry. Therefore, under S. 42, even if an agency is able to configure its workforce in such a way as to enable it to fill a critical vacancy, it may not be able to do so.

Every day we are losing valuable Senior Executives because of, in many cases, inadequate compensation. While we believe that we cannot afford to lose more, we have also come to believe that we may have to lose significantly more before government is willing to face up to the need to compensate its executives fairly. The government has recognized and acted on the need to raise military pay in order to maintain a voluntary service, yet for civilian employees we will neither permit them a way out nor will we raise their pay. The effect of S. 42 will be to raise the problem to such critical proportions that it can no longer be ignored.

However, even if federal executive compensation is increased, we are still left with the situation where vacated positions go unfilled, even at agencies which are not cutting back programs, and the consequences for government operations may be dire.

In order to ameliorate somewhat the chaos that could result from the government-wide application S. 42, we propose that employees be given a six month window to utilize its provisions. The employee should be required to make an irrevocable commitment to retire during the first three months of the six month period. The agency will need time to identify which of the positions will be filled through re-configuration of the workforce and to take the steps necessary to fill them. Many of those leaving will be in hard to replace categories, and sufficent lead time for replacement will be imperative. Agencies should also be given the authority to "double encumber" positions to be vacated during the last three months of the six month period, so that some training and transition from the experienced to the inexperienced can take place.

We also recommend that the window should start 120 days after enactment, instead of 60 days. This longer time for informing employees and for the employees to decide and act, is likely to be more effective. It is obvious that employees need adequate time to understand new opportunities open to them by changes in the retirement system, time to decide on actions to take, and time to put plans into effect.

We suggest that Sec. 8(d) be amended to include reinstatement action ordered by " a court or appropriate Administrative agency of the United States," such as the Federal Labor Relations Authority and arbitrators, when operating within their authority, as granted by Title V of the U.S. Code and collective bargaining agreements entered into between agencies and labor organizations. These are examples of bodies which have authority to order such reinstatements under law. And therefore, their reinstatement orders should also negate the loss of a position under Subsection (d).

The bill should explicity provide that employees covered under FERS would have the same early-out opportunities as those covered under CSRS. To be sure, not many FERs employees are likely to be eligible, but some of the transferees from CSRS to FERS would be eligible by age and years of service, and they should be included. We understand that the bill gives the President the authority to make equivalent changes in other retirement systems, but we would prefer to see an explicit requirement.

Finally, we have another recommendation outside the scope of S. 42, but which is related and in keeping with the objective of removing "handcuffs" which bind federal employees to positions they wish to leave. SEA has consistently supported the principle of pension portability which FERS alreay embodies. Now the CSRS should be modified to permit employees to leave in mid career without losing virtually all of their pension benefits. We recommend extension to CSRS of the FERS feature of voluntary early retirement with reduced annuity that keeps actuarial value constant. The fact is that CSRS employees are strongly tied to federal employment by their prospective pension benefits. This is clearly one of the major reasons for the low attrition rate for mid-career employees even in the face of salaries much below those received by their private sector coutnerparts. We believe that a liberalization of the conditions and terms for retirement would reduce the costs of government at the same time it would open up new options for employees to plan and determine their futures. It could benefit employees by opening up career ladders and encouraging greater mobility than is now the case. In addition, it would benefit the employer by fostering a younger work force with lower overall compensation costs.

Thank you for hearing our testimony today.

NATIONAL
FEDERATION
OF FEDERAL
EMPLOYEES

NFFE

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STATEMENT BY

THE NATIONAL FEDERATION OF FEDERAL EMPLOYEES

BEFORE

THE SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

ON

S. 42

A BILL TO ESTABLISH AN OPTIONAL EARLY RETIREMENT PROGRAM
FOR FEDERAL EMPLOYEES

Mr. Chairman and Committee Members:

I am pleased to appear before the Committee to testify on legislation that would temporarily expand the opportunity for Federal employees to retire early. The National Federation of Federal Employees has long held the view that early retirement is an essential option in the Federal Government's retirement system as well as in its reduction-in-force actions. We are therefore pleased that Senator Roth has recognized its importance by proposing to liberalize the retirement age and service requirements during a 90-day window period. More than seven years of pay freezes, benefit reductions, increased insurance premiums and a steady stream of invective from the Administration have left a disheartening proportion of the Federal workforce ready to take advantage of the opportunities offered by S. 24.

In fact, many early-out operations are already in effect The Office of Personnel Management reports an unprecedented number of agency requests for early-out authority this year. Early-out options are recognized as a humane method of coping with draconian budgetary cuts and decimating reorganizations. This year alone, Defense Department agencies are facing cuts of more than 23,000 jobs by the end of September. Early-out authority can be of inestimable service in limiting the personal trauma of a reduction in force. NFFE would prefer to see early-out authority become an automatic response to any reduction-in-force, rather than a permissive response, dependent on the whims of OPM.

NFFE would pledge its support for this legislation if it merely expanded the early retirement option for Federal employees. But, unfortunately, the bill goes further than that. S. 42 would also prevent agencies from replacing workers who retire during the 90-day window period for three years. This restriction could reduce Federal employment by as much as 400,000, since one of every six Federal workers would be eligible to retire under the liberalized requirements. The civil service could not function after such a loss, and the Nation could not function well with such a loss. Few would disagree with the need to replace many of those who would leave as a result of S. 42.

At this time, I would like to recognize the admirable work Senator Roth has done in addressing concerns voiced by NFFE when we first testified on his original early-out legislation, S. 2197, during the previous Congress. At that time, we warned this Committee that six months of personnel losses from retirement would be a crushing burden for any agency. Forcing agencies to carry such a burden for five years, we testified, would be a serious mistake. Senator Roth strove to address our concerns by shortening the window period to 90 days from the original six months, and reducing the restriction on replacing those who have retired from five years to three years. Unfortunately, these amendments are still not enough to prevent serious repercussions to the Federal workforce and the public it serves.

Not only would S. 42 result in the loss of experienced and qualified employees, which is a necessary, if unfortunate by-product of any early-out system, it would also seriously jeopardize the Government's ability to both serve and protect the public. Agency operations would be compromised by the inability to hire new workers. We recognize that an attempt has been made to address this concern as well. It is one which we had also voiced in our testimony on S. 2197. S. 42 includes an exemption for occupations, projects and locations that are essential for the continuous performance of any agency's mission. This is clearly a step in the right direction, but it is a step that does not go far enough.

S. 42 appears to be motivated by three goals: to allow Federal workers who so desire, an opportunity to leave Government service, and at the same time, save the Government money while protecting its mission. While there have been widespread reports of thousands and thousands of Federal workers anxious and even desperate to leave the Government, NFFE's experience is quite the opposite. The number of questions received at our Headquarters on a special early-out option come nowhere near the volume of calls we receive on pay raises, pay equity, Hatch Act reform and retirement cost-of-living adjustments. Still, NFFE supports early-out legislation as an option that will benefit at least some of our members. We can applaud both the goal of early retirement, as well as the goal of saving the Nation money. Senator Roth has made it plain that funds saved through passage of S. 42 could be spent only for deficit reduction. But as for protecting the mission of the Federal service, we feel S. 42 falls dangerously short.

Our criticism of the plan is still the same: NFFE has never, and cannot now, support a hiring freeze. Despite their popularity in some circles, hiring freezes are an ineffective way to reduce personnel levels. Because they are based on arbitrary employment goals and not on agency missions, they merely create disruption. One need only look at their history to bear this out. Four across-the-board hiring freezes have been placed on Executive Branch agencies in recent years. All of them were instituted for the same purpose as that stated in S. 42, "to reduce Federal Government civilian payrolls." But according to the General Accounting Office, these freezes did more harm than good. In one report, the agency noted "because they ignored individual agencies' missions, workload, and staffing requirements, these freezes disrupted agency operations, and in some cases,increased costs to the Government." ("Recent Government-Wide Hiring Freezes Prove Ineffective in Managing Federal Employment" FPCD-82-21. March 10, 1982.)

The findings of that GAO report are a warning to be heeded by anyone concerned with the integrity of the Federal Government. The agency determined that oversight of Federal programs was decreased, recruitment efforts were hampered and agency programs suffered significant setbacks. The reduced oversight itself resulted in additional problems. For example, the Inspector General's office for several agencies was unable to fulfill its responsibility to promote economy and efficiency and prevent fraud and abuse. Agencies unable to hire the necessary oversight personnel were therefore unable to maintain the quality and or cost efficiency of their work.

The GAO also found inefficient use of staff. Because attrition rates are higher for clericals, agencies found their administrative functions understaffed. To make up for thses shortages, higher-graded employees were required to assume the backlog. Agencies were thus paying GS-11s and GS-12s for clerical work. The implications were more serious for health agencies. During one of the previous Administration's freezes, a Veterans Administration Medical Center was hampered in the administration of medical care. According to the GAO, loss of clericals seriously affected the logistical support for direct patient care. It is highly likely that more serious problems would occur under the three-year freeze required by S. 42.

The hiring freeze could also have a negative impact on the economy. Revenues would not be collected and services that assist the business community would be curtailed. The six-month freeze in 1981 caused the U.S. Treasury a loss of $234 million in uncollected revenues. A three-year freeze would be even more expensive. Additionally, from the response that NFFE has received from our membership, it is my belief that well over 60 percent of those eligible would retire early.

Can it be coincidental that the hiring freezes we saw with such regularity in the early part of the decade have declined precipitously in frequency? Pervasive morale morasses, jerry-rigged personnel transfers and an arbitrariness in staffing levels took their toll, but taught us something as well. Hiring freezes serve numbers. They do not serve agency missions, they do not serve the taxpayers, they do not serve civil servants.

We cannot in good conscience accept the drastic personnel reduction intended by S. 42. Because of its lengthy duration, it goes far beyond a hiring freeze. It would constitute instead, an irrevocable change in the Federal workforce, a change that NFFE feels would benefit neither its members, nor the country as a whole. The Nation's priorities cannot be determined by arbitrary personnel levels. And while we agree wholeheartedly that the Federal deficit must be reduced, crippling the Federal workforce will neither achieve that goal, nor enable us to find other means to achieve it. I urge the Committee to delete the drastic hiring restrictions contained in this legislation.

That concludes my statement, and I will be happy to answer any questions.

STATEMENT OF THE
FEDERAL MANAGERS ASSOCIATION

Thank you, Mr. Chairman, for inviting the Federal Managers Association to offer its comments today regarding S. 42, the "Federal Employees" Optional Early Retirement Act", introduced by Senator William Roth. I am Bruce Moyer, Legislative Counsel of the Federal Managers Association.

Nearly two years ago at a hearing of this Committee, the Federal Managers Association presented its views on S. 2197, the predecessor of S. 42. Our position today on S. 42 remains the same as it was on S. 2197. While we support the principle of early retirement, an "early out" window, when conditioned by the imposition of a three-year hiring freeze, is unworkable and potentially devastating to the effectiveness of the Federal Government.

Under S. 42, agencies would open a 90-day early out period when most eligible employees could retire at any age with 25 years of service, age 50 with 20 years of service, age 55 with 5 years, or 57 with as little as five years of service. The bill also generally would prohibit departments and agencies for three years from replacing employees who retire early.

We are opposed to S. 42 because of the negative impact a hiring freeze will have upon the capacity of departments and agencies to carry out their statutory mandate. According to OPM, one out of every seven Federal workers would be eligible to retire under S. 42. The exodus of a sizable, highly skilled portion of the Federal workforce, coupled with a hiring freeze, will irrationally disrupt the operation of agency programs and the provision of government services.

Relatively older, more senior employees and managers are most likely to retire early under the bill. The loss of the considerable experience and institutional memory belonging to these members of the Federal workforce will severely strain the government's continuity and effectiveness. For those who remain behind, morale will suffer as they try to "make do" with less resources, but more work.

For the American public, the results will be equally disappointing. Although the bill professes to achieve deficit reduction through cutting the government's payroll, it is unlikely that deficit savings will occur. Departments and agencies without sufficient employees to perform their missions, and up against their personnel ceilings, will inevitably contract out to secure necessary services. When this happens, the same government employees who retired early may well return as government contractors or employees of government contractors. Studies show that in most cases contracting out ends up costing the taxpayer more in the long run.

The Federal Managers Association supports the principle of early retirement because of the manner it which it accommodates the personal plans of Federal employees who desire to retire at an earlier age. In addition, we believe the opportunity for an employee to retire early when he faces a cutback budget-induced reduction-in-force is certainly preferable to the RIF. In the private sector, when business conditions have required corporations to reduce their workforce, many of them have used "early out" incentives to pare down.

Early retirement is naturally attractive to many of our members who would be eligible to take advantage of the retirement window created by the bill. However, our members recognize as a matter of public policy the downside impact that their departures--in the context of a hiring freeze--would cause to the Federal Government and its citizens. It is for this reason that we oppose S. 42 in its current form.

Recently, the Office of Personnel Management authorized twenty-seven units within the Defense Department, the Small Business Administration, and a portion of the National Labor Relations Board to offer "early outs" in lieu of RIF's because of budget constraints. We believe the Committee, before approving "early out" on a government-wide basis, should examine the impact of this experience. Although OPM has not expressly linked such authorizations to employment ceilings, as S. 42 would require, the lessons learned there should contribute to a more prudent and effective use of "early out" in the future.

Mr. Chairman, thank you for this opportunity. I shall be glad to answer any questions you or members of the Committee may have.

STATEMENT OF ROBERT M. TOBIAS, NATIONAL PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION

Mr. Chairman and Members of the Subcommittee:

I am Robert M. Tobias, President of the National Treasury Employees Union. I appreciate this opportunity to express our union's views on S.42, the Federal Employees Optional Early Retirement Act of 1988.

The early retirement option is an important and popular benefit for Federal employees who meet eligibility requirements for early retirement and are financially able to retire with a reduced annuity. NTEU has long encouraged the use of early out retirement programs as a humane and viable alternative to reduction-in-force as a means of achieving staff reductions.

This policy has become increasingly popular in the private sector where a number of large firms have offered early retirement programs, sometimes in conjunction with other incentives, to avert or minimize anticipated layoffs. We believe that the availability of early retirement from the Federal service would soften the blow of reductions in force that might become necessary in the Federal sector, and we support the provision in S.42 to make this option available to Federal employees who wish to retire.

S.42 authorizes a one-time, government-wide early retirement program intended to accelerate attrition rates and facilitate a reduction in employment levels throughout the Federal government. During a 90 day period beginning 60 days after enactment of the legislation, early retirement would be available to virtually all Federal employees who have completed 25 years of service; are 50 years of age and have completed 20 years of service; are 55 and have completed 15 years service; and those who are 57 and have completed 5 years of service. For employees under age 55, the bill imposes a 2% reduction in basic annuity for each year an employee is under age 55 at the time of retirement.

Needless to say, Mr. Chairman, the provisions of S.42 which make early retirement available government-wide have been very warmly received by many of our members who would be eligible and financially able to take advantage of the program. A government-wide early retirement program would remove the "golden handcuffs" from thousands of Federal workers who wish to leave the Government but do not yet meet the basic eligibility requirements for retirement. Wide availability of early retirement would undoubtedly ease the impact of staff reductions which some Agencies could experience as a result of the federal deficit crisis, and expand promotion opportunities. NTEU supports the extension of these important benefits of early retirement to Federal employees government-wide.

We have reservations, however, about the imposition of a 2% reduction in basic annuity for each year an employee is under age 55 at retirement. This penalty for early retirement generally permits employees at the upper end of the grade scale and those who are highly qualified for private sector employment to leave, but precludes early retirement for many low and middle income employees who cannot afford to retire on a significantly reduced annuity. For example, an employee 52 years of age, with 27 years of service and a high 3 year average salary of $25,000 will have earned $12,562 in basic annual annuity income, $1,500 less than the $14,062 in annuity income he would receive by retiring at age 55. If an employee chooses to retire at age 52 during the window period for early retirement, the added penalty for retirement under age 55 would reduce his annual annuity by another 6% to $11,062, a loss of $3,000 in annuity income each year. The result of this added penalty is to effectively eliminate the option of early retirement for many lower and middle income workers. In view of the fact that the computation used for determining the basic annuity has a built-in penalty for fewer years of service, we recommend that the Committee eliminate the additional 2% penalty for retirement before age 55.

In addition, we believe that the present Federal policy concerning early retirement is in need of review and improvement. S.42 provides for a one-time exception to the existing criteria for early retirement programs, but it does not address the need for change in the policy itself. If the Federal government is to avoid the cost and disruption of reductions-in-force as it responds to program changes and budget reductions in the future, Federal Agencies must make greater use of programs such as early retirement to increase attrition and avoid layoffs. The current Federal policy, which provides that an Agency may request early out authority, and OPM may permit it, only when the Agency is undergoing a major reduction-in-force or reorganization in which a large percentage of employees will be subjected to involuntary separation or an immediate reduction in pay, is unnecessarily restrictive. A Federal Agency should be able to obtain authority to offer early retirement to minimize the impact of any RIF or reorganization which may result in involuntary separations, reduced pay, or involuntary relocations outside the commuting area. Such a policy would give Agencies greater flexibility with which to minimize the adverse impact of staff reductions, reorganizations and consolidation of offices on morale, productivity, and efficiency of Agency operations.

I would like to turn now to those provisions of S.42 which are designed to reduce staffing levels throughout the Federal government. This legislation provides that the employment levels in each Federal department, corporation, or independent Agency must be reduced by the number of employees who retire during the early retirement window period. A three-year ceiling is imposed at these reduced employment levels.

The President, or his designee, has the authority under the legislation to exempt up to 25% of an agency's eligible early retirees by occupational category or project, if deemed essential, or by geographic location if it is difficult to fill employee vacancies at the location by voluntary transfers of other employees. Employees may be transferred within the agency to fill vacated positions, and Agencies may increase contracting out of government services when "it is to the financial advantage of the government" to do so. In addition, the President or his designee is given authority to grant exceptions to staff ceilings for positions or classes of positions he determines to be essential for the performance of an Executive responsibility, or for positions whose entire costs are covered by user fees.

NTEU adamantly opposes the imposition of an arbitrary staff reduction and 3 year employment ceiling on every Federal agency. This meat-ax approach to reducing Federal civilian employment will lead to confusion and chaos in those agencies which must maintain or increase staffing levels in order to accomplish their mission as authorized by Congress.

About 500,000 employees, representing 18% of the Federal workforce, are eligible for early retirement under the provisions of S.42. Several unique factors, including the federal deficit crisis, changes in the taxation of Federal annuities, uncertainty about the future of Federal retirement, dwindling pay, and increasing disillusionment with Federal employment, are working together to make departure from the Federal government a very attractive proposition. It is impossible to predict accurately how many eligible employees will retire in a given Agency, but the numbers could be substantial, particularly in occupations for which there is great demand, and higher pay, in the private sector.

One of the likely consequences of this program to reduce the Federal payroll will be an escalation of contracting out in the Federal Government. A reduction in Agency employment ceilings which is not related to a reduction in workload or Agency budgetary constraint will create a powerful incentive for Agencies to contract out, irrespective of the cost, in order to keep Agency employment levels low. The use of contracting out to circumvent employment ceilings would eliminate any cost savings which this proposal is intended to achieve. Moreover, the same government services may cost the taxpayer more, because the current procedures for government contracting are flawed and unenforceable, and contracted work frequently results in cost overruns and a reduction in the quality and quantity of work performed.

Section 8 (g) S.42 includes a limitation on the use of contracting out to circumvent employment ceilings, but it provides no effective protection against this slight-of-hand. The provision states only that the President will take action to ensure that there is no increase in contracting out "except in cases in which it is to the financial advantage of the Federal Government", a limitation too vague to provide any real restriction on contracting out.

We can find no reasonable rationale whatsoever for establishing and enforcing a reduced Agency employment ceiling based on the number of people who elect to retire during the window period. For Agencies which are now operating with inadequate staffing to carry out the workload, a reduction in staff, transfers to fill empty positions, and three-year employment ceiling will needlessly make a bad situation worse.

S.42 attempts to address the problem of inappropriate staff reductions by providing that the President can exempt up to 25% of an agency's eligible early retirees by occupational category, project, or location, and by also giving him the authority to waive staff ceilings for certain positions or classes of positions deemed essential to the performance of an agency mission. However, both of these provisions are arbitrary. The bill gives one individual, the President or his designee, the authority to determine what categories, projects, and locations carry out essential activities. As we all know, there have been countless incidents where a President's views of essential activities have been very different from those of the Congress. If, for example, Congress directs the U.S. Customs Service to carry out a new drug interdiction program, and the President does not permit the addition of positions in excess of the Customs employment ceiling, the intent of Congress may be thwarted. In turn, Congress may be provoked to impose staffing plans of its own by statute, further restricting agency flexibility.

NTEU cannot support the provisions of S.42 which hamstring Federal Agencies with an arbitrary three-year plan for achieving staff reductions in the Federal Government. Clearly, the decision to reduce staff, or to increase employment when additional resources are needed to perform an Agency mission, must be made on an Agency by Agency basis, and be subject to periodic revision.

We urge the Committee to enact legislation that would allow an Agency to make early retirement available if the agency is facing a significant reduction-in-force or reorganization that involves directed reassignment or reduction in pay. Such legislation would give the agencies the flexibility with which to minimize the adverse impact of budgetary restraints, while allowing them the ability to also carry out their mandated duties.

This concludes my statement. I will be happy to answer any questions you might have.

ASSOCIATION OF CIVILIAN TECHNICIANS

JOHN T. HUNTER
National President

STATEMENT BY

JOHN T. HUNTER

PRESIDENT OF THE

ASSOCIATION OF CIVILIAN TECHNICIANS

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

APRIL 21, 1988

301-B Commerce Street
Occoquan, VA 22125

"Duty . . . Dedication . . . Dignity"

As President of the Association of Civilian Technicians, I appreciate the opportunity to express our organization's views on S-42 the Federal Employees Optional Early Retirement Act.

The Association of Civilian Technicians supports the concept of the legislation as an essential optional alternative to a reduction-in-force. However, we have reservations concerning the implementation factors of the legislation.

Our first concern has to do with the prohibition that prevents agencies from replacing workers who retire. This would not only slash federal personnel levels by thousands of employees it would seriously jeopardize the operational efficiency of the smaller agencies. For example, A.C.T. represents civilian employees of the National Guard with slightly more than 50,000 employed nation-wide. Any decrease in the present floor strength for these personnel would have a dire effect on the operational capability of the Army and Air National Guard to continue its important function as a part of the total force concept. The various state National Guards must be authorized to replace these essential personnel who opt for early retirement. The only alternative to relaxing the hiring restriction for an agency is to decrease the work load of that agency. This alternative is not possible in the National Guard because all of the Guard's equipment and supplies must constantly be maintained in peak operating condition.

Another fear in this area is that the National Guard would seize upon the hiring restriction as an opportunity to fill the vacated civilian personnel positions with Active Guard and

Reserve (AGR) personnel. AGR personnel are presently being brought on board at a very rapid rate - over 33,000 to date. Even though these active duty personnel have proven to be far more costly than civilian technician personnel it is no secret that DOD and the National Guard Bureau intend to continue to increase AGR strengths at the expense of the civilian technician program. For these reasons I urge the Committee to delete the hiring restriction from the Bill and that the Civilian technician floor strength be maintained in the National Guard.

Secondly - the A.C.T. believes that when an agency must reduce its personnel strengths the early-out option should extend to all employees who meet the eligibility requirements. S-42 would not cover employees with a mandatory early retirement age and it excludes doctors and nurses. To permit the Administration, or the agencies, to further hand-pick individuals or job classifications for early-out authority could lead to all sorts of improper personnel actions. If there are certain employees or positions that are absolutely essential to the government they shouldn't be penalized for this essentiality. They should be rewarded with special pay rate consideration. Perhaps this would entice these individuals to remain in federal service.

Rumor has it that the DOD will request that National Guard technicians be excluded from early-out coverage. The Association of Civilian Technicians would strongly oppose such an action. If such an action is approved then National Guard technicians should be awarded special pay rates as essential employees.

The early-out provisons of any finalized legislation should be available to all eligible employees across the board without exclusion. Permitting an agency to select groups or positions for early retirement would be no different than a reduction-in-force procedure.

A third area of concern is the possibility of contracting out those positions vacated by early retirees. I realize that this bill requires that appropriate action should be taken to ensure there is no additional contracting out unless it is of financial advantage to the Federal Government . Agencies, under the best of conditions seem to have difficulty in performing the required cost comparisons to substantiate contracting out. With a minimum of experienced personnel available it will be even more difficult. Further, this organization suspects that the National Guard Bureau, once all civilian technicians are located in maintenance positions in accordance with present plans, will contract out those maintenance positions as they become vacated. I repeat my earlier request that the National Guard be permitted to hire civilian employees to replace early-out retirees and that a civilian technician floor strength be maintained.

Finally, we question the 2% penalty for each year under age 55. This provision penalized two groups of people - the younger and the lower graded-personnel . Eligibility should be based strictly on service without age criteria. Why whould an employee age 52 with 30 years service be penalized while an employee age 57 with 30 years service is not? They both served 30 years and both should receive the same annuity. Age distinction should be removed from the legislation. Also, a 2% penalty further reduces the minimal retirement of lower graded personnel and prevents them from participaton in an early-out program. Thus, the 2% penalty, really limits S-42 to higher paid employees who can afford the reduction in annuity. Rather than a 2% penalty, the Committee should consider a cash bonus to individuals who accept an early retirement. This would be more in line with current private sector practice.

In conclusion, I wish to reiterate that the A.C.T. supports the concept of early retirement legislation as a viable alternate to reductions-in-force and extensive furlough actions. However, replacement hiring should be authorized for the smaller essential agencies such as the National Guard technician program. I want to emphasize that a civilian floor strengh should be maintained in the National Guard civilian technician program and that the National Guard should be restrained from replacing retired employees with Active Guard and Reserve (AGR) personnel. Lastly, early retirement provisions should apply equally to all personnel and the 2% age penalty should be eliminated.

I appreciate the opportunity to present my views today and I am prepared to work with Committee staff to resolve any questions the Committee may have.

Central Intelligence Agency

Washington, D.C. 20505

7 March 1988

The Honorable John Glenn
Chairman
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The Director has asked me to respond on his behalf to your request for the views of the Central Intelligence Agency on S. 42, the Federal Employees Optional Early Retirement Act of 1987. I apologize for the delay in providing this report to you. The Office of Management and Budget cleared this report only a few days ago.

Let me say at the outset that CIA recognizes that the intent of this bill is to lower Federal employment in an orderly and humane manner without disrupting the ability of Federal agencies to perform their mission. However, passage of this bill would have a serious, negative effect upon the Agency's ability to effectively perform its intelligence functions. Most of the employees who would become eligible for retirement under this bill are at the GS-14, GS-15, and the Senior Intelligence Service (SIS) levels. These senior officers, by reason of their years of experience, possess key and irreplaceable intelligence skills which are essential for the Agency's sustained ability to collect, analyze, and manage intelligence programs and operations. The Agency can ill-afford the possible widespread loss of such valuable expertise. Although the bill attempts to lessen the impact of loss of key employees by providing authority for the President to exempt an occupational category, location or project from the early retirement provisions of the bill, the exemption authority is too restricted to alleviate the concerns we have with the legislation. The Agency must retain the authority and flexibility to determine the best methods by which to lower employment in a manner that does not hamper or harm our intelligence mission.

There are two other provisions contained in the bill that cause particular concern. Section 10(b) provides for the Comptroller General to audit the records of an agency of the Federal Government to determine the level of compliance with requirements, not to obligate or expend for any purpose outlays saved by reason of this bill. Given the sensitivity of Agency records, this provision is undesirable as well as unnecessary, since the appropriate body to review and audit Agency records is already constituted in the intelligence oversight committees. Section 11, mandating that the Agency provide OPM certain information for purposes of OPM making a report to Congress, is also of concern to the Agency because it would require the Agency to release potentially sensitive information.

The Office of Management and Budget advises that from the standpoint of the Administration's program, there is no objection to the submission of this report for consideration of the Committee.

I appreciate your asking for my views and hope that the concerns I have raised will be carefully considered by the Committee.

Sincerely,

John L. Helgerson
Director of Congressional Affairs

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

October 7, 1987

The Honorable William V. Roth, Jr.
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Senator:

As you requested, the Congressional Budget Office has estimated the potential budgetary impact of a bill, identified as the Federal Employees' Optional Early Retirement Act of 1987, as measured against the CBO baseline used in the concurrent budget resolution for fiscal year 1988. During the three-month period starting 60 days after enactment, the bill would allow certain federal civilian employees to retire under relaxed requirements for minimum age and years of service. The bill also would reduce total federal civilian employment to the extent that workers retire, whether under provision of current law or the proposed bill, during the three-month period.

CBO estimates that enactment of the bill would increase direct spending through fiscal year 1992 by some $2.1 billion. This includes $1.3 billion in new federal retirement payments and about $0.8 billion for losses of employee contributions for deferred compensation such as life insurance and retirement benefits. To offset these costs, the bill seeks to curtail the size of the federal civilian work force, and thereby to reduce government payroll expenditures by an estimated $5.2 billion through 1992. But there is no guarantee that future appropriation levels—and thus budgetary costs—would be reduced accordingly.

Funds for federal employee salaries are appropriated on an annual basis along with funds appropriated for other categories of expenditure. Although the bill is designed to reduce federal employment and lower government spending, Congress may choose a different course of action. The net budgetary effect is contingent upon subsequent actions taken by the Congress.

Payments to Retirees

The bill would increase direct federal spending by an estimated $1.3 billion over the 1988-1992 period for payments to early retirees of their Civil Service Retirement (CSR) benefits and unused annual leave. For those employees who accelerate their retirement, unused leave payments are assumed to average one-month's pay. In addition, about 50 percent of the accelerated group is assumed to elect reductions in future annuity payments in order to receive lump-sum payments that average some $19,000 per person. The possibility of higher administrative costs for processing the surge in new retirements is not considered.

Based on information from the Office of Personnel Management, some 430,000 federal employees would become eligible to draw an immediate CSR pension during the early retirement period. The estimated increase in direct spending assumes that 25 percent of this group will not be given the early retirement option because they are in critical positions, missions, or locations. Costs to the federal government would be higher if the option remains open to all positions. It is difficult to estimate the portion of eligible employees that would decide to retire early if the bill were enacted. Approximately 40 percent of those eligible are age 55 and over. The estimate assumes that 25 percent of this group would take advantage of the retirement option and accelerate their retirement plans. Under current law, most of this group would have retired in 1991 or beyond. The remaining 60 percent of the eligible pool has an average age of 50 with 28 years of federal service. The estimate assumes that 5 percent of the younger group would elect the early retirement benefits, even though the earned annuity is reduced by 2 percent for each year under age 55. In taking the two groups together, we estimate that nearly 10 percent or about 42,000 of the eligible employees would opt for early retirement.

Reductions in Employee Contributions

Reductions in mandatory as well as voluntary employee contributions for deferred benefits programs would accompany individual's decisions to retire early and would increase government costs through 1992 by an estimated $0.8 billion. These include mandatory contributions for CSR and Social Security benefits as well as voluntary contributions for the government-sponsored life insurance program and thrift savings plan.

This estimate is consistent with CBO's February baseline which treats the transactions of the Federal Employees' Thrift Savings Fund as on-budget activities. If these transactions were excluded from budget totals, the bill's direct spending costs through 1992 would change slightly, increasing by less than $0.1 billion. Following the recommendation of the General Accounting Office, CBO's August baseline excludes the transactions of the Thrift Savings Fund from the budget.

Employment Reductions

The President currently exercises broad powers to control the size of the federal civilian work force. They are carried out as part of the budget process and usually entail ceilings on the number of full-time equivalent employees allowed each agency during a given year. Since 1982, the Congress has renewed the yearly prohibition on the use of any "man-year" constraints or limitations in managing the civilian work force at the Department of Defense. By overruling this prohibition, the bill would broaden existing authority to limit the size of the federal work force.

Section 8 of the bill would institute an additional mechanism to reduce the number of federal civilian employees. In particular, it would require the President or his designee to impose a work force ceiling for each agency that declines by the number of employees who retire during the three-months that pension eligibility is relaxed. Although the ceilings would continue for three full years, the President could exempt certain positions determined "essential for the performance of an Executive responsibility." But the maximum number of exemptions for each agency is 10 percent of the vacancies that result from CSR employees retiring during the three-month period ending April 1988.

If no exemptions to government hiring limitations were granted, employment in nonpostal agencies could decline by more than two percent or about 48,000 jobs during the three months ending April 1, 1988. In addition to the employment reduction of 32,000 due to accelerated retirements, some 16,000 other positions would not be filled due to individuals retiring under current CSR old-age and disability provisions. (This assumes that 25 percent of the employees retiring during the three-month period work for the U.S. Postal Service or Postal Rate Commission and therefore their positions could be refilled.) Assuming the Administration grants the maximum number of exemptions and using an average 1988 salary of about $20,000 for each new hire precluded under the bill's provisions, the bill could lower federal payroll levels over the 1988-1992 period by $5.2 billion. (This estimate assumes budgetary resources are not diverted to expanded use of overtime, that managers do not accelerate efforts to use contracting out where financially advantageous, and that agencies will begin to fill the vacancies resulting from the bill's enactment at the end of the hiring limitation period.) However, the realization of any outlay savings remains contingent upon subsequent appropriation actions taken by the Congress.

The possible effect of the bill's employment cutbacks on the level and quality of government services is uncertain, and the cost and magnitude of such impacts cannot be quantified. Even with the 10 percent exemption provision, effective and efficient administration of some defense and nondefense programs could be impaired.

With best wishes,

Sincerely,

Edward

Edward M. Gramlich
Acting Director

GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
WASHINGTON, D.C. 20301-1600

21 APR 1988

Honorable John Glenn
Chairman, Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This is to present the views of the Department of Defense on S. 42, 100th Congress, a bill "To amend title 5, United States Code, to establish an optional early retirement program for Federal Government employees, and for other purposes."

The proposed legislation provides for a 3-month window period, beginning 60 days after enactment, during which an employee could retire with an immediate annuity if he/she meets any one of the following criteria:

-- any age/25 years service

-- 50 years old/20 years service

-- 55 years old/15 years service

-- 57 years old/5 years service

Annuities would be reduced by 2 percent for each year under age 55. There would be a 3-year freeze on replacing anyone who retires during the window period. The President or his designee could exempt up to 25 percent of an agency's eligible employees from the bill based on critical skills, geographic location or working on a critical project.

The Department of Defense is unable to concur in the subject bill. While we recognize the value of early-out authority as under existing law, we are very concerned that the effective and efficient administration of many of our programs could be seriously impaired under the bill. We believe that there would be a significant loss of key Department of Defense personnel during the three-month window period, notwithstanding the 25 percent exemption provision. The three-year hiring freeze would further exacerbate this situation.

The Office of Management and Budget advises that there is no objection to the submission of this report from the standpoint of the Administration's program, for the consideration of the Committee.

Sincerely,

Kathleen A. Buck

Kathleen A. Buck

U.S. Department of Justice

Office of Legislative and Intergovernmental Affairs

Office of the Assistant Attorney General

Washington, D.C. 20530

02 MAR 1988

Honorable John Glenn
Chairman
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This is in response to your request for the views of the Department of Justice on S. 42, a bill entitled the "Federal Employees' Optional Early Retirement Act of 1987."

S. 42 would permit, for the purposes specified in Section 2, certain Federal employees to voluntarily retire early under liberalized requirements for minimum age and length of creditable service during a three month period commencing 60 days after enactment of this bill. The anticipated savings resulting from enactment of this bill are based upon a three fiscal year reduced work force ceiling with resultant hiring restrictions for each agency, which would be determined by the number of employees who retired during the three month period. The bill's objective is to help assist agencies in achieving budgetary reductions resulting from the Balanced Budget and Emergency Deficit Act of 1985 (Public Law 99-177.)

As you are aware, Section 8336(d)(2) of Title 5, U.S.C. currently provides agencies with the authority to request Office of Personnel Management approval for early voluntary retirements, with the same age and length of service requirements provided under the provisions of discontinued service retirement, during periods of major reorganizations, reductions-in-force, or transfers of function. In addition, agencies of their own volition can always impose hiring restrictions or other fiscal restraints to achieve mandated budgetary reductions. If necessary, we believe the purposes or objectives of S. 42 can be accomplished by alternative means without the administrative burdens and expenses which would be created by the provisions of this bill, and the potential loss of valuable personnel from agencies which have no present need to reduce their work forces. In our opinion, the enactment of S. 42 is unnecessary and would unduly restrict and complicate the Department's ability to manage our work force.

For the foregoing reasons, the Department of Justice recommends against enactment of this legislation. The Office of Management and Budget has advised the Department that there is no objection to the submission of this report from the standpoint of the Administration's program.

Sincerely,

John R. Bolton
Assistant Attorney General

U.S. Department of Transportation

General Counsel

400 Seventh St., S.W.
Washington, D.C. 20590

APR 19 1988

The Honorable John Glenn
Chairman
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This is in response to your request for the views of the Department of Transportation on S. 42, a bill

> "To amend Title 5, United States Code (U.S.C.), to establish an optional early retirement program for Federal Government employees, and for other purposes."

Our review of the proposed legislation indicates that, were it to be enacted, this bill could have a devastating impact on the critical programs of this Department. Our comments on specific provisions of the bill follow.

First, this bill does not provide agencies with the controls they need, and which are contained in current early optional retirement legislation, to determine which employees should be eligible for early retirement. S. 42 would only permit an agency to exempt from coverage up to 25 percent of its employees who would otherwise become eligible for retirement under its provisions. Limiting an agency to an arbitrary 25 percent exemption is not acceptable when critical safety programs would be potentially severely affected by early retirements.

In this Department, we have done an analysis of the impact of this provision on the Federal Aviation Administration (FAA). We have found that, if S. 42 were enacted, there would be a 4- to 6-fold increase in the number of eligible retirees in three highly critical occupations -- senior controllers, electronic technicians, and engineers. Large increases in the number of eligible retirees would also occur in other safety-critical areas such as pilots, aviation inspectors, and air traffic supervisors and managers. Though we can and do plan for the systemic and timely recruitment and training of replacements for projected retirements, a 4- to 6-fold increase in these projections would greatly disrupt our ability to plan and control work force changes, leaving us understaffed in many safety-critical occupations.

Looking at the impact of S. 42 from a different perspective, 4,500 FAA employees in critical occupational categories would become eligible for immediate retirement under its provisions. These employees represent 63 percent of all FAA employees who would become eligible for retirement under S. 42, clearly far above the 25 percent exemption limit permitted. Allowing this large number of critical employees to retire en masse would completely disrupt FAA's work force plans and undermine the safety and operation of the airspace system.

Even if the Department's entire 25 percent exemption were allocated to FAA, it would not be sufficient to cover all of FAA's critical occupations. It would also preclude us from declaring exempt any of the nearly 700 railroad safety inspectors, motor carrier safety specialists, highway safety specialists, and engineers in our other operating administrations. The safety of other modes of transportation would thus be compromised.

Our second concern is the provision imposing a 3-year freeze on filling positions under any retirement option, including regular optional retirements, and requiring agencies to go to a third party for exceptions to the freeze. Past administrative attempts to operate under such a system quickly evolved into paperwork exercises that were extremely burdensome to all parties. Eventually they were abandoned.

We are not convinced that a legislatively mandated freeze on employment is required. Agencies which are committed to budgetary and work force reductions would not react to vacancies created by early retirements by filling all vacated positions. We do need to retain the authority to determine which positions are critical and must be filled, and filled in a timely and efficient manner. S. 42 does not meet that need. Furthermore, including all types of retirements in establishing an agency's reduced full-time equivalency level would severely impact our ability to fulfill our critical functions, disrupt our ongoing work force planning efforts, and force us to take budgetary reductions in an area which might not otherwise be necessary.

Finally, we are concerned about the limited coverage of the statutory exemptions of Section 3 of the bill, which fails to address many of the Department's critical safety occupations and even in the case of air traffic controllers, would make ineligible for retirement only air traffic controllers not in supervisory or administrative positions. As of December 31, 1987, there were 18,213 air traffic controllers as defined by 5 U.S.C. 2109. Of those, 2,412 were in first-level supervisory positions. They were included in the definition of air traffic controller under 5 U.S.C. 2109 because the performance of their duties required them to maintain the medical requirements and technical proficiency requirements, and to perform the operational duties of non-supervisory controllers. In addition to these first-level supervisory controllers, there are the approximately 600 higher level supervisory and managerial controllers referenced earlier. Because air traffic control is an occupation in which vacancies above the entry level must be filled from within the current work force, retirements from first-level supervisory and higher level controller positions have a ripple effect throughout that work force. The large number of retirements in the controller work force that could result from S. 42, particularly when combined with large numbers of retirements among the other technical personnel engaged in the maintenance, restoration, operation, or certification of the National Airspace System, could have a devastating effect on that system.

Accordingly, for the reasons stated above, we are opposed to enactment of S. 42. The Office of Management and Budget advises that, from the standpoint of the Administration's program, there is no objection to the submission of this report for the consideration of the Committee.

Sincerely,

B. Wayne Vance

NASA

National Aeronautics and
Space Administration

Washington, D.C.
20546

Reply to Attn of: XC:MAM:tsc:XC22727f

MAR 1 1988

Honorable John Glenn
Chairman
Committee on Governmental Affairs
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

This letter further responds to your request for the comments of the National Aeronautics and Space Administration (NASA) on the bill S. 42, the "Federal Employees' Optional Early Retirement Act of 1987." The bill would allow certain Federal employees to retire under relaxed requirements for minimum age and years of service during a three month period starting 60 days after enactment. NASA is very concerned about this legislation, because of the effect it would have on our work force and the accomplishment of our mission. While S. 42 contains a device to grant exemptions to agencies where essential services are at risk, the potential impact is lessened by only 25%, and that still leaves an enormous problem for NASA. The other concern is the severe hiring restriction to replace retirement losses through the end of fiscal year 1991.

Out of a complement of fewer than 22,000 employees at NASA, nearly 9,000, or 40% of our work force, would become eligible to retire under the provisions of the bill. Looking more closely at this eligible population, some alarming factors emerge: over three-quarters are GS-12 and above, our most seasoned and experienced people; and more than half are scientists and engineers. Of even more concern is the possibility that about 80% of our key senior line managers (or 60%, with maximum exemptions) could leave the agency under the provisions of the bill. A survey undertaken last year indicates that, conservatively, 1,700 employees, 20% of those eligible, would probably elect to retire. The up-front cost to the NASA budget of lump sum annual leave payments for 1,700 retirements is estimated at almost $7 million (assuming 200 hours of annual leave per retiree). With maximum exemptions, there would still be about 1,275 retirees who would elect to retire, increasing NASA outlays by $5.25 million for lump sum annual leave payments. This is a significant amount.

Such a massive outflow of senior talent, resulting in the loss of technical expertise and in-depth knowledge of the evolution of our programs, would seriously jeopardize our ability to carry out our mission, just when we are recovering from the Challenger accident. The bill would have additional negative consequences for NASA because, in effect, it would impose a three year workforce ceiling that declines by the number of employees who retire under the bill's early-out provisions. Maintaining and strengthening our core capability is absolutely crucial to the accomplishment of our mission. A decrease in our complement of a thousand or more employees that could result from this legislation would cause such severe disruption that we could be forced to consider drastic measures, such as closing one or more of NASA's research centers and contracting out some basic research and development work, among other possibilities. Such a loss to our work force would be a crippling blow.

The bill's provisions for holding over essential employees and exempting certain essential occupational positions would not significantly lessen the serious consequences resulting from the loss of a large number of our most senior and experienced people and the three year freeze on rehiring for these positions. The six month "holdover" provision would not nearly compensate for the years of training it would take to rebuild our scientific and engineering work force, nor could it replace the "institutional memory" we would lose. At NASA, that term has unique significance.

Concerning the bill's exemption authority, as we have pointed out, even if the maximum number of exemptions were granted, 75% of the eligible employees could retire, which at NASA, is a substantial number. Additionally, the bill's limited exemption authority would not allow for proper management of our workforce. Any singling out of employees in specific occupational categories, projects or locations, as provided in this bill, could result in real or perceived concern on the part of all eligible employees about fair treatment. At NASA, we believe our work force must be treated as a whole, and any artificial selection of a position or occupational category to be exempted could be detrimental to work force morale.

In summary, the bill would severely disrupt the accomplishment of our mission due to the loss of a large number of our most senior and experienced people and the three year restriction on replacing retirement losses.

Accordingly, for the reasons above, we are opposed to S. 42.

The Office of Management and Budget has advised, that from the standpoint of the Administration's program, there is no objection to the submission of this report to the Congress.

Sincerely,

Jon A. McBride
Assistant Administrator
for Congressional Relations

NATIONAL LEAGUE OF POSTMASTERS
OF THE UNITED STATES
1023 N. Royal St., Alexandria, VA 22314-1569 • Telephone—(703) 548-5922

STATEMENT

OF

RON SWISHER

PRESIDENT

NATIONAL LEAGUE OF POSTMASTERS

EARL OGLE	RUBIN HANDELMAN
PRESIDENT	PRESIDENT
NATIONAL ASSOCIATION OF	NATIONAL ASSOCIATION OF
POSTMASTERS OF THE U.S.	POSTAL SUPERVISORS

FOR

THE COMMITTEE ON GOVERNMENTAL AFFAIRS

U.S. SENATE

ON

EARLY-OUT RETIREMENT LEGISLATION

APRIL 21, 1988

I AM RON SWISHER, PRESIDENT OF THE NATIONAL LEAGUE OF POSTMASTERS. TODAY I AM PRIVILEGED TO BE SPEAKING ON BEHALF OF THE POSTAL SERVICE MANAGEMENT ORGANIZATIONS WHICH REPRESENT OVER 70,000 POSTMASTERS, POSTAL SUPERVISORS AND OTHER POSTAL MANAGERS NATIONWIDE. I APPRECIATE THIS OPPORTUNITY TO MAKE OUR VIEWS KNOWN ON AN ISSUE OF IMPORTANCE TO ALL POSTAL MANAGEMENT EMPLOYEES -- EARLY-OUT RETIREMENT LEGISLATION.

THE DISTINGUISHED RANKING MINORITY MEMBER OF THIS COMMITTEE, SENATOR WILLIAM ROTH, INTRODUCED S. 42, LEGISLATION TO ESTABLISH AN OPTIONAL EARLY RETIREMENT PROGRAM FOR FEDERAL EMPLOYEES, EARLY LAST YEAR. WE HAD TESTIFIED AT A HEARING DURING THE 99TH CONGRESS ON A SIMILAR BILL HE INTRODUCED IN 1986. AT THAT TIME, WE POINTED OUT SEVERAL PROBLEMS WITH THE EARLIER BILL, INCLUDING OUR OPPOSITION TO A HIRING FREEZE FOR THE POSTAL SERVICE ON REPLACING THOSE WHO HAD OPTED OUT. WE ARE HAPPY TO SAY THAT THIS PROVISION IS NOT INCLUDED IN S. 42.

PROVISIONS OF S. 42 INCLUDE: A THREE MONTH WINDOW PERIOD FOR EARLY RETIREMENT; MODIFIED AGE AND YEARS OF SERVICE REQUIREMENTS TO QUALIFY FOR EARLY RETIREMENT; FULL EARNED BENEFITS FOR THOSE AGE 55 AND OVER, AND A 2% PER YEAR REDUCTION IN BENEFITS FOR EACH YEAR UNDER AGE 55; PRESIDENTIAL EXEMPTION OF UP TO 25% OF AN AGENCY'S ELIGIBLES; A SIX MONTH HOLD-OVER FOR CRITICAL EMPLOYEES; A THREE YEAR HIRING FREEZE FOR AGENCIES EXCEPT THE POSTAL SERVICE OR POSTAL RATE COMMISSION; AND PRESIDENTIAL WAIVING OF REHIRING RESTRICTIONS FOR CERTAIN CRITICAL OCCUPATIONS OR FOR USER-FEE FINANCED AGENCIES.

THE POSTAL MANAGEMENT ORGANIZATIONS SUPPORT THE PROVISIONS OF S. 42 WITH THE EXCEPTION OF THE 2% PER YEAR PENALTY FOR THOSE UNDER AGE 55, WHICH WE WOULD ASK THE COMMITTEE TO STRIKE FROM THE BILL. WE WOULD BE UNALTERABLY OPPOSED TO ANY HIRING FREEZE FOR THE POSTAL SERVICE. WE SUPPORT AN EARLY RETIREMENT OPTION FOR THOSE POSTAL MANAGERS WHO FALL SHORT OF THE CURRENT AGE AND YEARS OF SERVICE REQUIREMENTS, AND WHO, FOR A VARIETY OF REASONS, WANT THE OPTION TO RETIRE EARLY.

WE THANK THE HONORABLE SENATOR ROTH FOR INTRODUCING THIS LEGISLATION AND THE COMMITTEE FOR HOLDING THIS HEARING.

DEPARTMENT OF DEFENSE
UNITED STATES OF AMERICA

NATIONAL SECURITY AGENCY
CENTRAL SECURITY SERVICE
FORT GEORGE G. MEADE, MARYLAND 20755-6000

Serial:. U/019/88
29 February 1988

The Honorable John Glenn
Chairman, Committee on Governmental
  Affairs
United States Senate
Washington, DC 20510-6250

Dear Mr. Chairman:

This responds to your letter of 28 October requesting views of the National Security Agency (NSA) on S. 42, the Federal Employees' Optional Early Retirement Act of 1987.

S. 42 apparently is intended to offer a solution to deficit reduction through reduced federal employment. However, the bill has the potential for totally disrupting the mission of this Agency and, for that reason, the National Security Agency must oppose it.

Nearly one-fourth of the NSA work force would be eligible for retirement under S. 42. Prominent among that number is approximately 60 percent of all key Agency managers and between 30 to 50 percent of our most highly trained technical staff, people who cannot be easily replaced by junior members of the work force. Losses suffered during previous austere periods have mandated a major rebuilding of our "high tech" work force, and over half of our total work force has ten years or less experience. Consequently, we are absolutely dependent on our senior managers and technical employees to provide training and leadership to this developing population and to manage the Agency's mission in a way that permits us to continue to support the national security effort.

While S. 42 is an improvement over Senator Roth's bill of the 99th Congress in that it allows the President to prevent employees in critical occupational categories, projects, and locations from taking advantage of an early out, he may only do so if their numbers amount to less than 25 percent of the overall Agency population who would be eligible to retire. This formula applied to an intelligence agency such as ours, where the majority of our occupational categories and projects are essential for the continuous performance of a critical mission, would conflict with the intent of the exemption. The bill recognizes that certain categories are essential and cannot survive a big cut in numbers. Yet some of our most critical occupational categories could not be designated by the President as an exempt category because employees in those categories outnumber the 25 percent maximum allowed to be protected by the bill.

We understand the need to reduce government spending and are prepared to do so, but not in a way that could impact so adversely on our mission as we believe S. 42 would do.

The Office of Management and Budget has advised us that there is no objection, from the standpoint of the Administration's program, to the submission of this report to Congress.

Sincerely,

Elizabeth R. Rindskopf

ELIZABETH R. RINDSKOPF
General Counsel

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAR 11 1986

Honorable John Glenn
Chairman
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear John:

This is in reply to the Committee's request for the views of the Office of Management and Budget on S. 42, "To amend title 5, United States Code, to establish an optional early retirement program for Federal Government employees, and for other purposes."

The purpose of the bill is to authorize a special, one-time early retirement option for the Government as a means of both reducing the size of the Federal workforce while avoiding reductions in force, and decreasing Federal outlays.

To this end, the bill would expand existing early retirement options to allow employees age 55 with 15 years of service, or age 57 with five years of service, who are not now eligible for early retirement under the terms specified in current law, to retire from the Government on reduced annuities. In addition, the bill would impose a three-year hiring freeze on replacing employees who opt for early retirement under the bill, would deny use of the early retirement option to employees in specified shortage occupations, and would allow the President to exclude up to 25 percent of any agency's eligible employees from participating in the early retirement program.

There is no disagreement that early retirement can be a helpful management tool; the early retirement provisions in current law, for example, permit selective, controlled reduction of the workforce in targeted agencies and programs, and have mitigated the impact of reductions in force. However, the Administration cannot support the expansion of existing early retirement authority proposed by S. 42 because the bill represents an undesirable and costly approach to reducing the Federal workforce.

In sum, we have four major concerns with S. 42:

- the assumption that a three-year hiring limitation can be sustained successfully -- an essential element in the success of the plan,

- the omission of language eliminating the staffing floors in appropriations bills,
- the limitations on the President's flexibility in declaring exemptions to early retirement and rehiring, and
- the related increase in Federal expenditures.

Past experience has shown that a hiring freeze cannot be successfully maintained for a lengthy period. Furthermore, it is logically inconsistent to impose a hiring freeze while at the same time leaving untouched numerous statutory staffing floors mandated for various agencies and program in appropriations acts.

S. 42 would also inappropriately shift authority for decisions about the best way to make reductions in the Federal workforce from the Government's managers to individual employees. Key responsibility of managers for their workforce and, therefore, their program operations, would be effectively transferred to thousands of employees, whose personal decisions would ultimately control the scope of any force reductions. Such a role reversal would be highly undesirable and is without precedent in the private sector.

Although S. 42 gives the President some limited flexibility for exceptions to the hiring freeze and to the availability of the early retirement option to certain employees, the bill would invite widespread voluntary early retirement of essential employees. This would result in heavy lump-sum withdrawals of retirement contributions as now permitted by the Federal employees' retirement law, which would increase budget outlays substantially in the first year. As noted above, the hiring freeze proposed in the bill would undoubtedly not work, and the predicted outyear savings would therefore not materialize.

Accordingly, for all of the reasons stated above, we oppose enactment of S. 42.

Sincerely yours,

James C. Miller III
Director

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, D.C. 20415

Office of the Director

FEB 25 1988

Honorable John Glenn
Chairman
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510-6250

Dear Mr. Chairman:

This is in response to your request for the Office of Personnel Management's views on S. 42, a bill "To amend title 5, United States Code, to establish an optional early retirement program for Federal Government employees, and for other purposes."

S. 42, like S. 2197 of the 99th Congress, would authorize a one-time, Governmentwide early retirement opportunity for civilian Federal employees, with the intention of encouraging an orderly and voluntary reduction in payroll costs and sparing employees possible adverse effects of Federal budgetary cutbacks. During a 90-day timeframe beginning 60 days after enactment of S. 42, participants in the Civil Service Retirement System, Central Intelligence Agency Retirement and Disability System, Foreign Service Retirement and Disability System, and any other retirement system that the President deems appropriate to include, could voluntarily retire and receive immediate annuity benefits if they meet liberalized age and service combinations.

This opportunity would generally apply to employees who are any age with 25 years of service, age 50 with 20 years' service, age 55 with 15 years' service, or age 57 with 5 years' service. Annuity benefits would be subject to a 2 percent reduction for each year an employee is under age 55 at time of retirement. Early retirement would be unavailable, however, for individuals who are employed in one of the shortage occupations expressly excluded by the bill or who are subject to a Presidential exemption. The President, or his designee, may exclude up to 25 percent of an agency's eligible candidates from early retirement (on the basis of occupational category, project assignment, or geographic location) to ensure continuation of functions critical to agency mission. Moreover, to smooth staff transitions, agency heads would be permitted to delay the effective date of an employee's early retirement election for up to 6 months.

In an effort to ensure effective reduction of personnel costs, S. 42 would, in each of the succeeding 3 fiscal years, impose a freeze on replacing employees who retire under any authority during the early retirement opportunity. The freeze provision would not, however, apply to the U.S. Postal Service or the Postal Rate Commission. Nor would it prohibit transfers between Executive branch agencies to fill vacancies, assuming there would be qualified and available surplus employees. Moreover, the President, or his designee, could allow limited exceptions to the general freeze (to fill positions essential to performance of an Executive responsibility or to staff programs supported by user fees) so long as these waivers do not increase the employing agency's personnel costs by an amount which exceeds the savings realized from early retirements. S. 42 further specifies that any net savings in personnel costs which accrue to agencies from implementation of this legislation could only be used to offset cutbacks in personnel expenditures required to meet statutory deficit reduction goals for Federal budget purposes.

S. 42 offers several improvements over the prototype bill in the 99th Congress which featured a more liberal, 6-month early retirement election period, coupled with a 5-year freeze on replacement hiring and no provisions for exempting critically important employees in each agency or deferring their departure. Nonetheless, OPM must persist with our fundamental objections to a Governmentwide early retirement program.

Basically, there is no need for this legislation, especially since we anticipate no widespread reduction in Federal civilian employment. Should individual agencies find it necessary to implement a reorganization, reduction-in-force (RIF), or transfer of function which will cause a significant number of employees to suffer pay reduction or separation from Federal service, agencies may obtain OPM approval to extend early optional retirement under the Civil Service Retirement law to employees in the impacted organization. Current law authorizes early retirement benefits for employees generally when they are at least 50 years old with 20 years of service or, regardless of age, when the employees have 25 years of service.

Early retirement programs also present a number of serious disadvantages. Compared to the use of attrition to achieve personnel reductions, early retirement is very costly because (1) there will be immediate and substantial budget outlays for early retirees who elect lump-sum withdrawals of their contributions to the retirement system, and (2) stringent control on hiring replacement employees is really not feasible on a long-term basis. S. 42 itself recognizes that there would be an immediate need to replace some employees and authorizes limited waivers of the freeze on rehiring. Pressures for legislative action to further relax the freeze are certain. Moreover, an early optional retirement program turns decision-making about how to effect a work force reduction over to individual employees, with little or no management control. This may well result in higher than anticipated personnel losses and the premature exodus of the Government's most valuable and difficult-to-replace employees. Though S. 42 would permit the President, or his designee, to exclude up to 25 percent of an agency's eligible retirees, such an arbitrary percentage does not provide enough flexibility. Agencies and programs which are slated to remain fully-funded, or to grow, would be gravely harmed by any decrease in experienced staff.

Additionally, we are concerned that subsection 8(g) of the bill may place new restrictions on agency authority to secure personnel services by contract. Agencies must be free to contract out when it is cost-effective for them to do so.

In conclusion, OPM urges that S. 42 not receive favorable consideration.

The Office of Management and Budget advises that, from the standpoint of the Administration's program, there is no objection to the submission of this report.

Sincerely,

Constance Horner

Constance Horner
Director

PMA
PROFESSIONAL MANAGERS ASSOCIATION

STATEMENT OF
PROFESSIONAL MANAGERS ASSOCIATION

for the
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

April 21, 1988

by
Helene A. Benson
President, Professional Managers Association

Mr. Chairman and members of the Committee, thank you for the opportunity to present the views of the Professional Managers Association (PMA) on the early retirement opportunity proposed in S.42.

The subject of retirement is of keen interest to our members who are Federal mid-level managers, primarily in grades 13-15.

PMA supports offering Federal employees an opportunity to retire early. We believe offering employees a voluntary early retirement opportunity is a humane alternative to major reductions in force (RIF's) under which employees' employment with the Federal Government would be involuntarily terminated. Enlightened private-sector employers, when faced with the necessity of reducing their work forces, commonly offer employees an opportunity to leave with retirement benefits not normally available to them. These plans are called "open window," "early retirement windows," "early retirement incentive plans," etc., and they have become quite popular in the last few years.

PMA supports the age and service requirements specified in S.42 — immediate retirement to anyone with 25 years' service regardless of age, at age 50 with 20 years' service, at age 55 with 15 years' service, and age 57 with 5 years' service.

The opportunity offered in S.42 for early retirement is coupled with a penalty of 2 percent reduction in benefits for each year the employee is under age 55. On this point we note that private-sector "early retirement window" plans commonly offer special additional incentives, beyond liberalization of the age and service requirements, in order to encourage employees to retire early. One such special incentive is elimination of the reduction in pension benefits because of age. Some other incentives common in the private-sector are otherwise improving pension benefits, cash payments, additional benefits as a subsidy for reduced Social Security benefits, and improved medical coverage.

(over)

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PMA is not necessarily recommending at this time eliminating the penalty for each year an employee is under age 55. However, we do recommend that the possibility of waiving the reduction be studied. We also recommend that present law be amended to eliminate the reduction for those employees who are involuntarily retired. It is PMA's view that waiving the reduction for those employees is eminently fair because their retirement income is smaller than they anticipated solely because of action taken by the Government.

The Hewitt Associates 1986 study of private-sector plans, Plan Design and Experience in Early Retirement Windows and in Other Voluntary Separation Plans, shows that 36 percent of employees who were offered early retirement windows accepted. However, 64 percent of the plans in the study offered an improved pension benefit, such as elimination of the early retirement reduction. Almost all offered some additional incentive beyond liberalized age and service requirements.

PMA believes that the number of employees ultimately willing to take advantage of the early retirement opportunity offered by S.42 may be smaller than anticipated without additional incentives. Among the chilling effects on a Federal employee's decision to retire early are the 1983 amendment to the Social Security law which reduces the amount of Social Security benefits that can be earned by retired Federal employees eligible for benefits after 1985 and employees' anxiety concerning cost of living adjustments in retirement benefits. Furthermore, because the bill offers no incentives beyond liberalized age and service requirements, this bill will not have the effect of encouraging those already eligible to retire to do so.

Thank you for the opportunity to offer our views on S.42. PMA will be happy to assist you and your staff in developing an early retirement open window plan for Federal employees.

HARPERS FERRY, WV, *August 14, 1987.*

Hon. WILLIAM V. ROTH, Jr.,
U.S. Senate,
Washington, DC.

DEAR SENATOR ROTH: In reading Mike Causey's column in the Washington Post, I saw that you favored early retirement for Government employees. I understand that the proposal is in the Senate Government Affairs Committee and I am writing to ask your support of this bill and to request that you urge other Senators to vote for passage of this bill when it reaches the full Senate floor.

I support this proposal because I am a younger Government employee and, if passed, this proposal would widen career opportunities for me and other younger employees and would possibly reduce or eliminate RIF's. This proposal would also give those senior workers the option to retire early and enjoy life, heighten morale for all concerned, and in the long run, save the Government money.

Sincerely,

CHRISTOPHER JORDAN.

ARLINGTON, VA, *July 27, 1987.*

Hon. WILLIAM V. ROTH, Jr.,
U.S. Senate,
Washington, DC.

DEAR SENATOR ROTH: I fully endorse the "Early Out" bill that you have sponsored. I am 52 yrs of age and have 32+ years of U.S. Government service. I am a GS-9 executive secretary. I perform diligently, including voluntary overtime as a matter of personal work ethics but there are no advancement possibilities for me. I have been in grade for twenty years. A grade 9 is the absolute maximum grade for a *career* secretary in my Department. I can only look foward to the day when I will be eligible to retire and the beginning of a second career.

There are thousands of people in my position. A significant percentage of these jobs can be eliminated without harm to overall effectiveness. Vacated positions that are not eliminated could be filled with younger people. Many positions could be downgraded. In any event, the present or regraded positions would be filled at the entry level. New incumbents would then, at least, have an incentive in terms of within-grade increases, if not promotions.

The focus of your bill, of course, is our incredible budget deficit. Historically, reductions of the US payroll have been achieved via formal or informal RIF's. This has always resulted in work and morale upheavals and hit the weakest the hardest (young people, women, minorities with little service). Your bill would reverse the process and remove from the payroll those who are the least impacted: people closer to retirement, people who have been involuntary "time-servers," who have floated at the top of their grades, who frequently find themselves excess baggage, placed into "make-work" jobs.

Maybe your bill should specifically state the percentage of vacated positions that may be replaced, either by agency or for the Civil Service as a whole (to be allocated by OMB). To make a maximum contribution towards the deficit reduction, the bill might require a reduction of 3% p/a (in lieu of 2%) for those below 55 years and/or with less than, say, 20 or 25 years of service. Thus, an individual, aged 55 years but only 17 years of service would also accept an annuity reduction. Alternatively, you may wish to consider a retreat position that would concentrate on employees over 50 years and/or with over 30 years of service (80+ point formula).

I am convinced that those, like me, eager to opt for Early Out would not be put off by a 3% vs 2% reduction in their pension.

Union arguments that early retirements would reduce service to the public or lead to contracting out are specious. Loss of union membership may be a realistic prospect. But then, I believe unions and their salaried employees should fight for, rather than against, maximum benefits for their members and not try to maximize membership for the purpose of funding themselves.

I recognize that my support of Early Out is based on self-interest. But, I honestly want to make a contribution to reducing the federal payroll by helping to compress the size of the Civil Service, accept reduced pension benefits and pay additive taxes on my second career earnings.

I should like to express to you, Senator, and to your staff my thanks for a useful and valiant effort and hope that your bill, in some form, will become law.

With every wish for the success of early out,
Sincerely,

Anne M. Keen.

August 10, 1987.

Hon. William V. Roth,
Hart Building, U.S. Senate,
Washington, DC.

Dear Senator Roth: Both my father and I have had long and worthwhile Civil Service careers and I am excited about your early retirement bill. The bill would save a tremendous amount of money for the government and would allow me the option of early retirement. For many others, especially younger employees, this would allow them to advance to higher grades as older, more conservative employees exercise their retirement option.

I personally think that this is good for the United States. Reducing the roles will force reorganizations and streamlining which is desperately needed. And it would give older employees the "option" to retire. In my view, this makes sense. Many successful businesses are also doing this in order to bring young, bright, and energetic employees into key management positions.

Please take my thoughts into consideration as you deliberate this important bill.
Sincerely,

Thomas E. Myers.

Philadelphia, PA, *February 2, 1987.*

Dear Senator Roth: I wrote a letter to you in April, 1986, and you responded with a letter dated May 2, 1986 thanking me for my interest in the Federal Employees' Optional Early Retirement Act, S2197, I recently read that you had again introduced legislation which would provide some 400,000 Federal employees with an opportunity to retire well before normal elogibility. At a time when private industry is offering early retirement to their employees so that their companies can survive these competitive, economic times, it is definitely advantageous for the Federal Government to consider this proposal as part of the budget reconciliation bill later this year. As Federal employees become older, productivity is lost through illness, and neither the employee nor the Federal Government is well-served by this situation. Most older Federal employees like myself would welcome the opportunity for early retirement. I urge you to lobby for this humane and sensible approach to the question of the Federal deficit.
Yours sincerely,

Olga Nigro.

Oakland, CA, *July 24, 1987.*

Dear Senator: I am writing this letter to enlist your support for Sen. William Roth in his fine effort to pass the early retirement bill for federal workers (S–42).

There are many federal workers who have second career opportunities who would benefit themselves, and their communities by making a new start in the private sector with more active lifestyle than is possible in their present employment.

With a projected increase in life expectancy, due to a more active lifestyle, these employees can look forward to an additional 25 to 30 productive years. The sooner these people find a rewarding second career opportunity that will keep them productive, beyond their normal retirement years, the better they are able to adjust to this important change, and contribute to the social and economic well being, not only to themsleves, also to their communities.

A few federal employees feel that they are stagnating in a government position that can no longer fuel their former enthusiasm. Accordingly, these employees feel their talents are no longer fully utilized.

In this time of reduced budgets and cut-back management, some federal employees 55 or older are frustrated and need to move, and yet have too many years of loyal work in the government to risk their only retirement benefit by resigning before they are fully entitled.

If this bill passes, it would do much to improve the quality of life for those workers choosing to forge ahead in new career opportunities. It would also improve the moral of those workers who would qualify to retire under this bill, but chose to stay and find fullfilment in their present position. In the long run, this bill would open up more employment possibilities and would assist those agencies that are hampered in their efforts to hire minorities. Some of my colleagues are presently planning, or are already in a transition of owning and operating a small family owned business enterprise that requires the part time help of young people and minority employees.

The passage of this bill would assist these part time family business owners in becoming full time entrepreneurs who will be in a good position train and hire more young people and minorities in the community, also help alleviate some of the serious unemployment problems in this area.

Given the size of the federal budget deficit, it is prudent for all of us to seek ways in which to cut costs by reducing the size of the federal work force wherever possible. This bill would help to accomplish this without the drastic consequences of more destructive measures, such as reduction in force under the civil service rules.

Sincerely,

BRIAN STURGESS.

U.S. AIR FORCE,
Tinker AFB, OK, July 14, 1987.

DEAR SENATOR ROTH: I would like to extend my recommendation for passage of S.B. S-42 relative to Early Out Retirement. I now have 26 years of experience and believe passage of this bill will be beneficial based on the following observations.

I have noted over the years that most respondents to early out retirement falls within the GS-12/13 range. These are generally people who are frustrated as far as advancement, career opportunity and pay increases. It is evident as age increases productivity decreases due to lack of these incentives. The loss of these skills is minimized by the fact that younger, better educated and more highly motivated personnel will be afforded advancement opportunities previously denied.

I am certain the overall impact will be enhanced morale, increased productivity and higher quality of skill.

Thank you for your efforts.

Respectfully,

JAMES R. TAYLOR,
Contracting Officer.

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